CORPORATE
EARNING
POWER
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MARKET
VALUATION
1935-1955

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CORPORATE EARNING POWER AND MARKET VALUATION

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1935–1955

SIDNEY COTTLE, Senior Economist, Stanford Research Institute, and
TATE WHITMAN, Professor of Economics, School of Business Administration, Emory University

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To our wives.

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PREFACE

Comparative analysis is the heart of investment action. All investment decisions, whether in the form of security purchases, mergers, or capital expenditures, are based primarily on the relative attractiveness of investment alternatives.

In the course of dealing with investment problems for both financial institutions and industrial corporations, the authors, as economists and consultants, found a need for consistent comparative analyses of the earning power and market valuation of America's major industries. While many fine individual-industry studies are available, we encountered a marked dearth of material providing consistent data and comparable analyses extending over a span of years and covering a substantial number of industries. Discussions with others confirmed the need for much work in this area and led us to the present study.

The first step in such an undertaking was to develop in a consistent manner data showing the comparative earning power and market valuation of the most important industries in the manufacturing and trade sectors of the economy.

In developing the information it has been necessary to analyze one hundred and fifty companies over a twenty-one-year span. Over more than two decades marked changes have occurred in accounting practices, the corporate tax structure, and in the very nature of numerous companies. In addition, there have been the distortions arising from a major and a minor war and a postwar inflation. As a result of these complications and the magnitude of the undertaking itself, the study involved well in excess of 10,000 hours of analytical and statistical work. In view of the problems involved and the scope of the project, it is too much to expect that the data are without error.

There are often alternative approaches for handling numerous balance sheet and income statement items. Frequently none of them provide the perfect answer. Our objective was to follow techniques which would minimize the effects of differences between corporations in accounting procedures and in capital structures so as to achieve as much consistency between companies and industries as possible.

The logic behind the analytical techniques employed and some of their shortcomings are set forth in the text. Undoubtedly, there will be those who will take exception to some of the methodology. For those who do so and who would wish to revise the data, it had been our hope to provide individual company figures with information on all adjustments but publication costs preclude this. However, in order that the reader may note the principles applied, the full data for the companies comprising the Steel Industry are provided in Appendix B. A limited supply of the individual company tables (exclusive of notes concerning adjustments) are available from sets reproduced by the Life Insurance Association of America for their members. As long as the supply lasts, the reader may obtain a set upon request to:

Dr. James J. O'Leary
Director of Economic Research
Life Insurance Association of America
488 Madison Avenue
New York 22, N. Y.

The exploratory work on the study was aided by grants from Emory University and The University Center in Georgia. The basic research, however, was made possible principally by grants from The Life Insurance Association of America. For this financial aid, we are grateful. At the same time, we wish to express our appreciation to Dean Gordon Siefkin of the School of Business Administration of Emory University for making the necessary staff arrangements so that we could undertake the work.

We wish to thank the numerous people who have encouraged the work and made helpful suggestions. We would like particularly to express our gratitude to James J. O'Leary, director of economic research, the Life Insurance Association of America; George T. Conklin, Jr., financial vice-president, Guardian Life Insurance Company of America; Roger Murray, associate dean, Graduate School of Business, Columbia University; Glenelg P. Caterer, vice-president, Lionel D. Edie & Company, Inc.; Harry G. Guthmann and Bion Howard, professors of finance, School of Business, Northwestern University; Marshall D. Ketchum, director, School of Business, University of Chicago; Orson Hart, vice-president, New York Life Insurance Company; and Chester H. Clemens, partner, Loomis, Sayles & Company, Inc. Whatever the merits of the study, they were enhanced by the criticisms and suggestions of these and others. Whatever the defects, they are attributable to the authors alone.

We particularly wish to acknowledge the faithful and efficient work performed throughout by Morris C. Cox, research assistant, and Mrs. Myrtle Thomas, secretary.

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CORPORATE EARNING POWER AND MARKET VALUATION

Chapter 1

INTRODUCTION

Composite Industry Experience

From an investment standpoint, the most important single fact about a business is its earning power. The fact of next importance is the market valuation of that earning power. In the present instance, our concern is with the market's appraisal of that share of income which is available to the common stock. However, neither a company's earning capacity nor the value that the market places on its common stock can be satisfactorily evaluated in a vacuum. They need to be judged in terms of the performance of other companies in the industry. Or, preferably, since the number of companies in most industries is substantial, they need to be appraised in terms of composite industry experience, i.e., an industry average.

The problem, however, does not stop with the consideration of the performance of an individual company in relation to that of its industry. It is also necessary to examine the record of the specific industry in relation to those of other industries. In other words, industries—as well as companies—need to be appraised in relation to one another. That is, they need to be judged on the basis of comparative analysis.

The comparative analysis of both companies and industries rests on factual information. Therefore consistently prepared data covering primary financial facts and extending over a sufficient period to provide perspective are essential to effective analysis.

Need for Specific Information

General knowledge of the performance of industries, while very helpful, is not sufficient. It is common knowledge that whereas the chemical industry is characterized by an attractive level of earnings and a remarkable degree of growth, the meat packing industry earns a comparatively low return on its capital and has little growth. Similarly, it is common knowledge that the return earned on total capital by the packaged foods industry was considerably higher in the prewar than the postwar period and, contrariwise, that the steel industry has had a considerably better postwar than prewar earnings record. The relative performance of industries and companies, however, cannot be adequately judged in such broad terms.

There are a host of questions which need to be answered in order to reach a fully considered opinion as to the relative success, value, and attractiveness of a given firm or industry. For example, although the chemical industry has had a more favorable earnings and growth record than meat packing, how much better are its earnings? How much more is being paid by the investor for these favorable factors? How does the performance of the chemical industry compare with that of oil? Paper? Other growth industries? How does the record of the meat packing industry compare with that of corn products? Packaged foods? Other consumer nondurable goods industries? And so on.

Then there are all the questions which arise in connection with the long-run, cyclical, and other aspects of an industry's performance. In addition, there are the questions with respect to the performance of the individual company in relation to that of its industry.

Consistent Data

To answer these questions, a consistent body of factual information is necessary. In spite of this well-recognized fact there is a dearth of published studies devoted to a long-run comparative factual analysis of a substantial number of American industries. In fact, although various investment banking houses and other financial organizations release from time to time excellent analytical reports pertaining to individual industries and although certain tabulated data are provided by financial services, we are not familiar with any published material which provides over an extended period an examination of the earning power of America's major manufacturing and trade industries and the related market values of their common stock.

Objective: Industry "Yardsticks"

For this reason, it is the objective of the present study to develop in a consistent manner factual information which can be used by investors and others as industry "yardsticks" both in appraising the performance and valuation of companies within a specific industry and in appraising that industry in terms of other industries.

Earnings and valuation data for thirty-three industries within the manufacturing and trade sectors of our economy are presented herein. They provide the investor with a basis not only for more effective comparative industry and company analyses but also for a fuller appraisal of portfolio diversification. The data should also be of much assistance to corporate management interested in evaluating their firm's record in terms of both their own and competing industries. Further, we hope that the information will be helpful to economic studies presently in progress and that it will also stimulate new studies. For example, there is a wealth of material which can be used to probe further into various aspects of the business cycle and into the effect of the cycle on corporate financial management.

Form of the Report

Chapter 2 explains the sampling method employed and Chapter 3 describes the nature of the data compiled and the analytical procedures employed in developing them. Chapters 4 through 10 constitute the presentation and discussion of the data.

In view of the substantial volume of data involved, the material is approached from three standpoints. First, Chapter 4 analyzes the broad aspects of the earning and valuation information and lays the foundation for more detailed consideration in the subsequent chapters. Accordingly, it is a discussion of the performance of the thirty-three industries in terms of the over-all experience of industry. In this connection, the postwar leaders and laggards and those industries with pronounced earnings trends, substantial earnings fluctuations, major changes in earnings, dividends, and capital structure, prominent shifts in market valuation, and other significant characteristics are pointed out.

Second, Chapter 5 reviews the experience of the thirty-three industries as grouped into six broad economic classifications. Thus it is a comparative examination of the composite performance of industries combined according to certain common economic characteristics.

Third, Chapters 6 through 10 are factual summaries of the comparative performance of individual industries. Each chapter is devoted to a discussion of the major points in the earnings and market experience of the industries comprising a specific economic group. For example, Chapter 6 presents and comments on the comparative data for the three industries classified in the Consumers' Durable Goods Group.

It is to be emphasized that throughout the chapters the analysis is entirely of a descriptive nature. "Descriptive analysis" has been defined by Graham and Dodd in *Security Analysis* as that which "limits itself to marshaling the important facts . . . and presenting them in a coherent, readily intelligible manner." It is not within the scope of the present work to undertake the determination and examination of the economic and other causes of the facts presented or the appraisal of them. In other words, the materials and comments provided do not purport to constitute either all-inclusive analysis or industry appraisals. A full analysis of all the pertinent facts relevant to the earning power and market valuation of the industries covered would be a most worthwhile and challenging undertaking. It is a future task to which we hope to set ourselves. The present study is a necessary first step.

One additional word of caution is to be added. The discussions of earnings, dividends, market value, or other trends, degrees of stability, levels, and relationships are clearly confined to the twenty-one year period from 1935 through 1955 and carry no implied connotations with respect to the future. For example, the statement that the Paper & Allied Products Industry had a pronounced upward trend or Cigarettes a decided downward trend in earnings rates, obviously, is not to be interpreted as an implication on our part that such a trend will or will not continue. This was the fact over the period under review. The reader will have to make his own projections.

Chapter 2

SAMPLE

Sampling Procedure

In selecting the industries within the manufacturing and trade sectors of the American economy and, in turn, the companies within those industries, the following sampling procedure was employed:

1. The industry classification of companies contained in the *Survey of American Listed Corporations, Corporate Profits and Return on Net Worth*, 1942–1950, compiled by the Securities and Exchange Commission, was employed. In this regard the Survey states:

   > The basis used for industrial classification is generally the normal business activity of the registrant. . . . The industrial group is usually determined from the description of the major or predominant business activity which accounts for the largest percentage of net sales or operating revenues. In some instances other important economic criteria, such as the business activity which accounts for the largest percentage of profits or the degree of vertical integration, are used as factors in deciding the industrial grouping.

   The *Survey* includes 1,521 companies in 105 manufacturing industries and 235 companies in 18 trade industries. The manufacturing companies had total sales in 1950 of $112.9 billion and net worth of $51.5 billion; the trade companies had sales of $19.9 billion and net worth of $4.9 billion. The aggregate sales and net worth for both categories were $132.8 and $56.4 billion, respectively.
2. The S.E.C. *Survey* covers companies listed on any stock exchange in the United States. The present study is concerned only with companies listed on the New York Stock Exchange. Accordingly, the S.E.C. data were recompiled and industry aggregates developed for New York Stock Exchange companies. The new sales and net worth totals for both manufacturing and trade companies were $111.3 and $48.6 billion, respectively, or approximately 84% and 86% of the corresponding aggregates for all listed companies.
3. After the recomputation of the industry data, the industries were ranked according to size in terms of their sales and in terms of their net worth. The industries were then selected for inclusion on the basis of size, beginning with the largest, until sufficient industries were obtained to account for at least 75% of both aggregate sales and net worth for all manufacturing and trade industries.
4. Employing the same procedure, the companies within each industry were selected.

Results

Through the use of the foregoing sampling method, 29 industries and originally 145 companies were selected. However, a few of the industry samples thus selected were modified. There were two primary reasons for the modifications. First, if within an industry group the nature of one company's operations diverged substantially from that of all the other firms in the sample, the company was excluded. For example, a predominantly woolen textile manufacturer was excluded from the "textile fabric" sample and a predominantly retail drug chain was eliminated from the "drugs and medicines" group. Second, although the S.E.C. industry classification has been held to as closely as possible, some of the broad industry classes become more meaningful if subdivided. Accordingly, in those instances where companies fall into two or more clearly distinct groupings, the industry classification is broken down further. For example, the container industry, clearly, can be divided as between glass and metal container companies. In connection with such divisions, it may be necessary to add one or two companies. Referring again to the container group, two can companies and one glass company constituted 75% of the industry total. However, in order to obtain some diversification within the glass container group two additional companies were added. Finally, two companies—General Dynamics Corporation and Rockwell Spring and Axle Company—were added in recent years because of mergers affecting companies in the original selection and one company—Chance Vought Aircraft Corporation—was added in 1954 because it resulted from a spinoff by a company in the sample. The final list of 151 companies and 33 industries is set forth in Table 1.

Nomenclature

The nomenclature of the industry groups has been changed in several instances from that employed by the S.E.C. The changes consist of shortening of the title ("Steel Producers with Blast Furnaces" to "Steel"), use of different word form ("Distilleries" to "Distilling"), or narrowing the industry title to more precisely cover the type of companies in the resulting sample ("Agricultural Machinery and Tractors" to "Agricultural Machinery"). In no case are the changes of such a nature as to create any difficulty in identification of the S.E.C. group from which the sample was taken.

Aggregate Net Worth and Sales

The aggregate net worth, sales, and other data for the 33 industries are tabulated in Table 2. The total net worth of $32.7 billion, as of the beginning of 1950, is approximately 82% of the aggregate net worth of the thirty-three industries from which the companies were selected and 67% of the aggregate net worth for all manufacturing and trade companies listed on the New York Stock Exchange. The total sales of $76.1 billion for the year represent 83% and 68%, respectively, of the totals for the thirty-three industries and for all listed manufacturing and trade companies.

Market Significance

To appraise the sample in terms of its market significance, the market value of the common stocks of the selected companies was determined as of the close on December 31, 1955. It amounted to $104.6 billion, which is approximately 72% of the corresponding market value of the common stocks of all manufacturing and trade companies listed on the New York Stock Exchange.

Table 1. SELECTED CORPORATIONS BY INDUSTRIES

Agricultural Machinery Industry
37 Allis-Chalmers Mfg. Co.
37 Case (J. I.) Co.
37 Deere & Co.
37 International Harvester Co.

Aircraft Industry
1 Boeing Airplane Co.
★ Chance Vought Aircraft Corp.[1]
1 Consolidated Vultee Aircraft Corp.[2]
1 Curtiss-Wright Corp.
1 Douglas Aircraft Co., Inc.
1 General Dynamics Corp.
1 Lockheed Aircraft Corp.
1 North American Aviation, Inc.
1 United Aircraft Corp.

Apparel & Accessories Chain Stores
68 Bond Stores, Inc.
★ Grayson-Robinson Stores, Inc.
★ Lerner Stores Corp.
55 J. C. Penney Co.

Automobile Industry
4 Chrysler Corp.
4 General Motors Corp.

Automobile Parts & Accessories Industry
5 Bendix Aviation Corp.
5 Borg-Warner Corp.
5 Dana Corp.
★ Doehler-Jarvis Corp.[3]
5 Eaton Manufacturing Co.
5 The Electric Auto-Lite Co.
5 Rockwell Spring and Axle Co.[4]
5 Standard Steel Spring Co.[4]
5 Stewart-Warner Corp.
★ Thompson Products, Inc.
5 The Timken-Detroit Axle Co.[4]

Building Materials Industry
12 The Flintkote Company
12 Johns-Manville Corp.
12 National Gypsum Co.
12 The Ruberoid Co.
12 United States Gypsum Co.

Chemical Industry
13 Allied Chemical & Dye Corp.
13 American Cyanamid Co.
13 The Dow Chemical Co.
13 E. I. duPont de Nemours and Co.
13 Hercules Powder Co.
13 Monsanto Chemical Co.
13 Union Carbide and Carbon Co.

Cigarette Industry
71 The American Tobacco Co.
71 Liggett & Myers Tobacco Co.
71 R. J. Reynolds Tobacco Co.

Copper Industry
19 The Anaconda Company
18 Kennecott Copper Corp.
18 Phelps Dodge Corp.

Corn Products Industry
29 Corn Products Refining Co.
29 Penick & Ford, Ltd., Inc.

Dairy Products Industry
30 The Borden Co.
30 National Dairy Products Corp.

Department Stores
55 Allied Stores Corp.
55 Associated Dry Goods Corp.
★ City Stores Co.
55 Federated Department Stores, Inc.
55 Gimbel Brothers, Inc.
58 R. H. Macy and Co., Inc.
55 Marshall Field and Co.
55 The May Department Stores Co.

Distilling Industry
9 Distillers Corporation – Seagrams Ltd.
National Distillers Products Corp.
8 Schenley Industries, Inc.
Hiram Walker–Gooderham & Worts, Ltd.

Ethical Drug Industry
19 Abbott Laboratories
19 Merck and Co., Inc.
14 Parke, Davis & Co.
13 E. R. Squibb & Sons[5]

Electrical Supplies and Equipment Industry
23 General Electric Co.
23 Westinghouse Electric Corp.

General Industrial Machinery [redacted] Equipment Industry

39 American Chain and Cable Co., Inc.
Blaw-Knox Co.
Combustion Engineering, Inc.
Fairbanks, Morse [redacted] Co.
Ingersoll-Rand Co.
Link-Belt Co.
Worthington Corp.

Glass Container Industry

16 Anchor-Hocking Glass Corp.
Hazel-Atlas Glass Co.
Owens-Illinois Glass Co.

Grain Mill Products Industry

General Mills, Inc.
Pillsbury Mills, Inc.

Grocery Chain Stores

★ American Stores Company
First National Stores, Inc.
The Kroger Co.
Safeway Stores, Inc.

Limited-Price Variety Stores

W. T. Grant Co.
S. S. Kresge Co.
S. H. Kress & Co.
G. C. Murphy Co.
F. W. Woolworth Co.

Mail-Order Houses

Montgomery Ward [redacted] Co., Inc.
Sears, Roebuck [redacted] Co.

[redacted] Packing Industry

Armour [redacted] Co.
The Cudahy Packing Co.
Swift & Co.
Wilson & Co., Inc.

Metal Container Industry

16 American Can Co.
Continental Can Co., Inc.

Nonferrous Metals Industry – excluding Copper

The American Metal Co., Ltd.
American Smelting [redacted] Refining Co.
44 The International Nickel Co. of Canada, Ltd.

Oil Industry

49 Gulf Oil Corp.
Phillips Petroleum
45 Shell Oil Co.
Sinclair Oil Corp.
Socony Mobil Oil Co., Inc.
Standard Oil Co. of California
Standard Oil Co. (Indiana)
Standard Oil Co. (New Jersey)
The Texas Co.

Packaged Foods Industry

General Foods Corp.
Standard Brands, Inc.

Paper and Allied Products Industry

The Champion Paper [redacted] Fibre Co.
Container Corp. of America
Crown Zellerbach Corp.
International Paper Co.
Kimberly-Clark Corp.
17 Marathon Corp.
The Mead Corp.
Rayonier, Inc.
St. Regis Paper Co.
Scott Paper Co.
Union Bag [redacted] Paper Corp.
West Virginia Pulp and Paper Co.

Proprietary Drug Industry

19 American Home Products Corp.
19 Sterling Drug, Inc.
★ Vick Chemical Co.

Radio and Television Industry

Admiral Corp.
Motorola, Inc.
Philco Corp.
23 Radio Corp. of America
53 Sylvania Electric Products, Inc.

Rubber Industry

74 The Firestone Tire & Rubber Co.
The B. F. Goodrich Co.
The Goodyear Tire & Rubber Co.
United States Rubber Co.

Steel Industry

63 Bethlehem Steel Corp.
Inland Steel Co.
Jones & Laughlin Steel Corp.
National Steel Corp.
63 Republic Steel Corp.
63 United States Steel Corp.

Textile Fabric Industry

70 Burlington Industries, Inc.
70 Cannon Mills Co.
70 M. Lowenstein & Sons, Inc.
70 Pacific Mills
70 J. P. Stevens & Co., Inc.
★ United Merchants & Mfrs., Inc.

Toilet Preparations & Soap Industry

62 Colgate-Palmolive Co.
62 The Proctor & Gamble Co.

Representativeness of Sample

In determining the industries and companies to be examined and studied, it has been necessary to develop a sample which would be sufficiently large and diversified to be representative and, at the same time, small enough to be manageable. The sampling method employed has made it possible to select in an objective and consistent manner (1) the largest industries—as measured by net worth and sales—in the manufacturing and trade sectors of the economy and (2) the major corporate units within each of these industries.

It is essential for the reader to appreciate that each industry sample is to be taken as representative of the performance of that portion of the industry listed on the New York Stock Exchange. It may or may not be fully representative of the industry as a whole. Nevertheless, this portion of each industry constitutes by far the major segment and is the part of primary investment concern.

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[1] Formed in 1954 by United Aircraft's spinoff of its Chance Vought Division.

[2] Merged with General Dynamics Corp. on April 30, 1954; General Dynamics included only in 1954 and 1955.

[3] In 1952 merged with National Lead Company.

[4] In 1953 Standard Steel Spring Co. and Timken-Detroit Axle Co. consolidated to form Rockwell Spring and Axle Co.

[5] Dropped when merged with Mathieson Chemical Corp.

Table 2. THIRTY-THREE SELECTED INDUSTRY SAMPLES

Aggregate Net Worth, Sales, and Market Value
Industries Ranked According to Net Worth

	(Millions of dollars)		
Industry	Net Worth Beginning 1950	Sales 1950	Market Value End 1955
Oil	8,564.5	11,142.3	26,730.2
Steel	3,747.4	6,751.9	6,757.3
Automobiles	2,563.6	9,721.8	13,607.0
Chemicals	2,347.5	3,406.2	18,254.7
Copper	1,358.3	1,044.3	2,539.9
Electrical Supplies & Equipment	1,077.7	3,252.8	6,037.4
Mail-Order Houses	1,027.7	3,253.8	3,271.8
Agricultural Machinery	1,013.7	1,755.5	1,055.7
Paper & Allied Products	1,003.7	1,608.5	4,187.6
Cigarettes	869.4	2,162.0	1,322.5
Rubber	807.1	2,746.8	2,343.5
Distilling	681.9	1,923.9	822.3
Meat Packing	670.8	5,366.8	401.8
Limited-Price Variety Stores	652.5	1,472.3	951.3
Department Stores	635.9	2,301.8	965.3
Textile Fabrics	561.8	1,235.7	532.5
Automobile Parts & Accessories	522.1	1,525.3	1,259.2
Nonferrous Metals–excluding Copper	532.4	1,085.9	1,676.1
Aircraft	471.3	1,414.7	1,712.3
Metal Containers	377.6	953.2	834.1
Building Materials	377.5	600.2	1,073.2
Dairy Products	349.4	1,537.7	837.3
Toilet Preparations and Soap	336.6	844.8	1,120.1
General Industrial Machinery & Equipment	314.4	577.0	794.9
Packaged Foods	271.2	890.6	681.9
Grocery Chain Stores	260.3	2,832.0	545.8
Radio and Television	254.5	1,489.7	1,075.0
Apparel & Accessories Chain Stores	252.5	1,233.3	884.1
Ethical Drugs	211.9	360.8	621.8
Glass Containers	183.9	431.0	511.0
Proprietary Drugs	150.1	345.6	662.9
Corn Products	135.1	221.5	267.4
Grain Mill Products	134.0	596.8	212.9
Total	32,718.3	76,086.0	104,550.8

Industry Groupings

As fully explained in Chapter 6, all of the industries– except Building Materials—are combined into five broad economic groups. The manufacturing industries were segregated according to whether their output consisted primarily of (1) consumers' nondurable goods, (2) consumers' durable goods, (3) producers' capital goods, or (4) producers' raw materials and supplies. The several industries engaged in retail trade were also brought together into a single group. Because of its economic individualism, the Building Materials Industry was unclassified and treated the same as a separate group for comparative purposes.

As in classifying companies by industries, the bringing together of industries by economic groups is according to the primary activity or product. For instance, although the Electrical Supplies and Equipment Industry manufactures hundreds of consumer nondurable and durable items, the major output is in generators, motors, and other equipment of the producers' capital goods type. Accordingly, the industry is put in the Producers' Capital Goods Group.

Through bringing the industries together in economic groups, it is possible to present and discuss more systematically and effectively the substantial amount of information developed for each industry and to make more thorough interindustry comparisons.

Chapter 3

NATURE OF THE DATA

The statistical information contained in this study has been compiled and computed to provide the basis for effective industry and company comparisons in terms of earning power and market valuation. To this end two sets of series are developed for each of the thirty-three industries. The first deals with earning power and the second with market valuation. This chapter sets forth the concepts underlying the choice of the series and the manner in which each is computed.

EARNING POWER SERIES

Earning Power Concept

The term "earning power" can be construed to mean a number of different things. In our opinion the fundamental measure of the earning power of an enterprise is the relationship of earnings to the total investment in the undertaking. Certainly, from the standpoints of both the investor and corporate management, the return earned by a corporation on its capital investment is the basic test of profitableness and the factor of primary concern.

There are several additional reasons for employing the rate of return on total capital as the criterion of earning power. First, although dollar earnings are important for trend analysis and other purposes, they are an unsatisfactory measure of profitableness in either reviewing the experience of a single company or in comparing the earning capacities of two or more companies. For example, if each of two companies had net income of $10 million but one had five times the capital of the other, the mere fact that they had equal income would be of little value in appraising the relative earning capacity of the two firms.

Second, the earnings on available total capital represent the end-product of every firm's endeavors. Thus, the rate of return on total capital measures through a single series the final result of all the operations of a corporation.

Third, because the influence of changes in capital structure can be minimized, if not wholly eliminated, earnings on total capital provide the most consistent long-run measure of performance.

Fourth, through using the earnings rate on total capital, it is possible to make a comparative examination of earning power not only between individual companies but also between industries.

Profit Margin and Capital Turnover

The earnings rate on total capital is the product of *(a)* the amount of each sales dollar which remains for total capital and *(b)* the amount of sales per dollar of total capital. Therefore, a better understanding of changes in the rate of return on total capital may be obtained if these two ratios are also computed and analyzed. The former ratio—earnings available total capital to sales—is referred to herein as the "profit margin." Although this employment of the term is not strictly in accordance with the usual connotation, nevertheless its use facilitates the discussion. The latter ratio—sales to total capital—is the well-known capital turnover ratio.

Return on Common-Stock Capital

All classes of investors are vitally concerned with the fundamental nature of the over-all earning capacity of a corporation. The common-stock investor, however, needs to carry his study one step further and examine the earning power of the enterprise in terms of its common-stock capital. To provide the common-stock buyer with this important information, the earnings rate on common-stock capital is also computed and examined. Therefore, earning power is measured in terms of the earnings rate on both total capital and common-stock capital.

The differences between these two rates for any company or any industry are accounted for by the extent of the leverage provided by senior capital. Consequently, the per cent that common stock capital is of total capital is a necessary supplemental series in appraising the comparative performance of industries and companies.

Absolute Data Series

The computation of the three ratios pertaining to total capital and the two concerning common-stock capital requires the development of the five following basic series of absolute data:

Total capital
Earnings available total capital
Net sales
Common-stock capital
Earnings available common-stock capital

There is considerable latitude as to what should be included in certain of the series. Therefore, the nature of each of the series as developed herein is set forth. Since it is necessary to explain common-stock capital before taking up total capital and, similarly, earnings available common-stock capital before earnings available total capital, the series are discussed in an order different from the above listing.

Common-Stock Capital. The amount of the common-stock capital is computed by adding together the common-stock account, earned surplus, capital surplus, net worth reserves, and deferred credits, and subtracting from that aggregate good will and other intangibles, deferred charges, any preferred dividend arrearages, and any substantial deficiency between the carrying value and the liquidating value of no-par preferred stock.

There can be little question with respect to the manner in which most of the foregoing items are treated. However, some explanation may be in order with regard to deferred items and the liquidating value of no-par preferred stock.

Very different sorts of things are included among the deferred items on both the asset and liability sides of the balance sheet. For this reason, it is frequently impossible to classify them with strict accuracy from available information. However, in industrial and trade concerns deferred items are nearly always of comparatively minor importance. Their classification would therefore have little effect upon the relationships which are to be examined. We have chosen to reduce their effect to a minimum by adding deferred credits to equity capital and subtracting deferred charges. In this way the influence of deferred items is confined to their net difference.

With respect to no-par value preferred stock, if the amount at which the stock is carried on the books is substantially less than its liquidating value, then the common-stock equity is overstated. Under such circumstances, the difference between the liquidating value and the carrying value is deducted from the common-stock equity.

Total Capital. Total capital is the sum of the tangible book value of the common-stock capital, the par (or liquidating) value of preferred stock plus any dividend arrearages, all debt other than current liabilities, any subsidiary debt and preferred stock, and minority interests in the common stock.

It is to be emphasized that in the postwar period accelerated depreciation has resulted in the understatement of the common-stock capital and, in turn, total capital of numerous companies and industries. Likewise, the use of leased facilities, through reducing or eliminating senior issues, has caused total capital to be understated. Insofar as the foregoing occurred, the ratio of sales to total capital will appear to be higher than it actually was. Furthermore, the earnings rate on both common-stock capital and total capital may be overstated.

Average Capital for the Year. There is an inevitable lag between an increase in capital, the expansion of productive facilities, and the receipt of earnings from that expansion. This lag has a pronounced effect on the earnings rate on total capital in periods of marked expansion, such as in the postwar years. Consequently, unless some adjustment is made, a misleading decline occurs in the earnings rate on total capital.

The earnings lag will vary widely between industries. In some industries a large plant may be erected and brought into production within a relatively short period. In others slow and costly construction may be followed by a considerable break-in period before full-scale production is reached. Moreover, the extent of expansion will differ substantially between industries and between companies in the same industry. It is not possible, therefore, to make a common adjustment which will be equally satisfactory for each company. One practical answer is to use the average capital for each year, i.e., the average of the capital at the end of the preceding year and that at the end of the current year. Therefore all ratios and other data in the study involving either total capital or common-stock capital are based on the average capital for the year.

Earnings Available Common-Stock Capital

In a later section of this chapter entitled "Adjustment of Reported Earnings," the basic analytical principle followed in developing the earnings data is set forth. At this point it is sufficient to state that the earnings available common-stock capital is net income after taxes (subject to such adjustments as are deemed necessary) less preferred dividend requirements.

Earnings Available Total Capital

When "net income after taxes" is determined, the only problem in arriving at earnings available total capital is the amount that should be added for "interest on noncurrent debt." Should it be the full amount of the interest paid? Or should it be the amount of interest paid less the federal income taxes that would have been due had interest charges not been deductible for tax purposes?

There are strong arguments on each side of this matter. In view of the emphasis on long-run comparative analysis in this study, we are inclined to the view that, in those years in which corporate income taxes were relatively high, taxes should be deducted from interest payments on noncurrent debt in computing the earnings available total capital. Accordingly, from 1940 to date a tax adjustment is made. Because an excess-profits tax was in effect during a number of years and because of tax credits and debits, it is not always possible to compute for an individual company the exact tax rate in each year. Accordingly, the tax adjustment is based on the normal and surtax in effect in that year. Through these adjustments the effect of capital structure differences on the earnings rate on total capital—for the most part—is eliminated.

Sales. The sales figures which are used are the net sales as reported by the companies. Due to the unavailability of information in the early years, the sales figures for the Cigarette Industry include revenue stamps and for Distilling include federal liquor taxes.

MARKET VALUATION SERIES

Market Price of Common Stock

Price data are compiled only for common-stock capital. On the surface it would seem that the same information should be gathered for total capital as well. There are, however, a number of factors which raise serious doubts as to the significance of valuation data for total capital in comparative analysis. For example, there is no market price for privately placed debt or preferred issues. Therefore, even if interest or dividend payments were in default, this portion of a company's capital would remain at either par or the offering price. Furthermore, the market value of publicly placed debt or preferred issues will be influenced considerably by the coupon rate, call provisions, and other similar factors. Thus these values could be changed through refundings, a rise or decline in the prevailing interest rate, and other factors that are basically extraneous to the earning power of a company. Consequently, for a number of reasons, a portion of the capital of companies may be either completely devoid of any change in value or subject to what might be called, insofar as earning power is concerned, exogenous changes.

In our opinion, the distortions which can occur in the "market price data" for total capital are sufficient to render the figures of questionable significance for present purposes. Accordingly, price information is confined to that for common stock.

Ratio Series

To provide a full basis for analyzing the market's valuation of the common stock of the thirty-three industries four ratio series are developed: (1) earnings-price ratio, (2) payout rate, (3) dividend yield, and (4) market-value to book-value ratio.

Although every reader will be fully familiar with the preceding ratios, we should like to refer briefly to the earnings-price ratio or earnings yield on the market price of common stock. The earnings-price ratio (earnings divided by price) is the reciprocal of the more familiar price-earnings ratio (price divided by earnings). In use, no actual difference exists between the two. For example, there is no distinction between saying that a stock sells at an earnings yield of 5% or that it sells at twenty times earnings. To facilitate comparison with dividend yield, the earnings yield is employed rather than the more customary price-earnings ratio.

This yield is computed through dividing "earnings available common-stock capital" for a company's fiscal year by "the average market value of common stock" (i.e., average of annual high and low) for the calendar year.

Absolute Data Series

The computation of the three market valuation ratios necessitates the compilation of the four following absolute data series:

Market price of common stock
Earnings available common stock
Cash dividends
Book value of common stock

The composition of the "earnings available common stock" and "book value of common stock" series has already been discussed. The nature of the two remaining items requires little comment.

Market Price. The "market value of common stock" is the average of the high and low per-share price for the year times the number of shares outstanding at the end of the year. The per-share price in each year is adjusted for stock dividends or stock splits in that year.

Dividends. "Dividends" represent the cash dividend declarations on the common stock of a company during its fiscal year.

ADJUSTMENT OF REPORTED EARNINGS

At the outset, it is necessary to decide whether income and expenses will be accepted as reported by the company or whether the financial statements should be analyzed for possible adjustment.

Accepted accounting practices permit substantial discretion in handling numerous items. Consequently, solely because of differences in accounting practices, significant variations can occur in the reported earnings of a single company. For this reason we consider that the adjustment of reported earnings is desirable in certain instances.

It is to be pointed out, however, that earnings adjustments can be carried only as far as available information makes possible. Furthermore, the number and variety of the changes that occur in the financial statements of companies are without limit. Consequently, it is not to be concluded that the adjustments made will result in absolute comparability between companies or even in complete consistency over the entire period for a single company. Nevertheless, the gain in comparability and consistency of the data fully warrants the adjustments.

If consistent adjustments are to be made to the financial statements of a large list of companies covering an extended span of years, it is necessary to adopt a basic analytical principle to which specific adjustments will conform. Fundamentally, the problem is the determination of net income. The choice lies between income as determined under the "current-performance" approach and under the "all-inclusive" approach.

Current-Performance and All-Inclusive Approaches

The objective of the "all-inclusive" approach to net income of corporations was set forth in a Bulletin of the American Accounting Association released in June, 1941, entitled *Accounting Principles Underlying Corporate Financial Statements.* Therein it was stated:

> The objective. . . [of the "all-inclusive" approach] is to develop a series of income statements which, for the life history of the corporation, will include *all gains and losses.* To this end the income statement for each fiscal period should show not only the items affecting current results, but also any adjustments for gains or losses which may not be regarded as strictly applicable to the operations of the current period but which have nevertheless been first recognized in the accounts during the period. If net income is to have any meaning the factors influencing it must be isolated and given a distinct and unified expression. This is possible if all gains and losses are carried through a single medium to earned surplus. It is impossible if expense charges, losses, or income credits may be carried directly to surplus or to surplus reserve. This comment does not apply to operating reserves created by means of carefully determined charges to current operating expenses.

In view of the emphasis given to computations of earnings per share, and to other measures of corporate performance, a common yardstick is needed. The fact that it may not be possible to measure precisely at the end of any year all costs which have been acquired or dissipated during that year makes it essential to encompass within a single statement not only the best possible measure of income from ordinary operations, but also gains and losses from events not always associated with the transactions of a single year.

In December, 1947, the Committee on Accounting Procedure of the American Institute of Accountants issued a Bulletin entitled *Income and Earned Surplus*. The Committee first contrasts the logic behind the supporters of the "all-inclusive" statement with that of the supporters of the "current-performance" type of statement.

> Proponents of the "all-inclusive" type of income statement insist that annual income statements taken for the life of an enterprise should, when added together, represent total net income. They emphasize the dangers of possible manipulations of annual earnings if material extraordinary items may be omitted in the determination of income. They also assert that, over a period of years, charges resulting from extraordinary events tend to exceed the credits, and their omission has the effect of indicating a greater earning performance than the corporation actually has exhibited.
>
> They insist that an income statement including all income charges or credits arising during the year is simple to prepare, is easy to understand, and is not subject to variations resulting from the different judgments that may be applied in the treatment of individual items. They argue that when judgment is allowed to enter the picture with respect to the inclusion or exclusion of special items, material differences in the treatment of borderline cases will develop and that there is danger that the use of "distortion" as a criterion may be a means of rationalizing the normalization of earnings. With full disclosure of the nature of any special or extraordinary items, this group believes that the user of the financial statements can make his own additions or deductions more effectively than can the management or the independent accountant.
>
> . . . .
>
> On the other hand, those who advocate the "current performance" type of income statement generally do so because they are mindful of the particular business significance which a substantial number of the users of financial reports attach to the income statement. They point out that, while some users of financial reports are able to analyze a statement and eliminate from it those unusual and extraordinary items that tend to distort it for their purposes, many users are not trained to do so. Furthermore, they contend it is difficult at best to report in any financial statement sufficient data to afford a sound basis upon which the reader who does not have an intimate knowledge of the facts can make a well-considered classification. They consider it self-evident that management and the independent auditors are in a stronger position than outsiders to determine whether there are unusual and extraordinary items which, if included in the determination of net income, may give rise to misleading inferences with respect to current operating performance.
>
> Relying on the proper exercise of professional judgment, they discount the contention that neither managements nor the independent auditors, due to the absence of objective standards to guide them, have been able to decide consistently which extraordinary charges and credits should be excluded in determining earnings performance. They admit it is hazardous to place too great a reliance on the net income as shown in a single annual statement and insist that a realistic presentation of current performance must be taken for what it is and should not be construed as conveying an implication as to future accomplishments. The net income of a single year is only one of scores of factors involved in analyzing the future earnings prospect or potentialities of a business. It is well recognized that future earnings are dependent to a large extent upon such factors as market trends, product developments, political events, labor relationships, and numerous other factors not ascertainable from the financial statements. However, this group insists that the net income for the year should show as clearly as possible what happened in that year under that year's conditions, in order that sound comparisons can be made with prior years and with the performance of other companies.

Although the Committee leaves the door open for some exceptions, the "all-inclusive" approach is clearly favored in the following conclusion:

> . . . there should be a general presumption that all items of profit and loss recognized during the period are to be used in determining the figure reported as net income. The only possible exception to this presumption in any case would be with respect to items which in the aggregate are materially significant in relation to the company's net income and clearly not identifiable with or do not result from the usual or typical business operations of the period.

It may be argued that the foregoing is of limited significance to the security analyst since, in any case, he would make the necessary adjustments to derive the "true" earnings for the period. Moreover, it is usually contended that the approach of a practical security analyst to a financial statement is substantially different from that of an accountant. Nevertheless, the points of view presented are of value because they set forth in clear-cut terms the following basic question which must be decided at the outset: "Is it the objective of a study of the historical earnings record of a company to present for the period covered annual income data which include *all gains or losses* or which include only those income and expense items relative *to current operations* in each year?"

The inclusion in income of nonrecurring and extraordinary items will show the actual earnings experience of a company over a long span of years, but it may result in relatively severe distortions of earnings in any single year. In contrast, the exclusion of such items will give a more accurate picture of a single year's income, but it may distort substantially the actual results for a period of years. In other words, there are numerous nonrecurring items which should be eliminated in determining the earnings for a single year but which should be included in the earnings for a number of years. No principle can be followed which will provide simultaneously the best short- and long-run information. Therefore, a choice must be made.

In terms of long-run studies of earnings, the weight of analytical opinion is on the "all-inclusive" side. For example, Graham and Dodd (in *Security Analysis*, McGraw-Hill Book Company, Inc., 1951) point out:

> Most of the non-recurrent items play a double and contradictory role in security analysis. They should be excluded in arriving at the results for a single year, but they should be included in the over-all results for a period of years.
>
> . . . In a long-run analysis of past results the best rule is to take every *real* profit or loss unless it is quite unrelated to the normal operations of the business.

Conclusions

It is our own view that the historical earnings record of a company should set forth the firm's total income experience and, further, that in a long-run study the results for a single year are of considerably less significance than the earnings for a period of years. For these reasons, the all-inclusive approach is adopted as an over-all guide in developing data. Thus we concur both in the prevailing accounting opinion and in the analytical views expressed by Graham and Dodd. At the same time, within the confines of the all-inclusive approach considerable latitude exists. While no hard-and-fast rules can be made, we consider that with the exception of write-offs of intangibles, adjustments arising from transactions in the company's own preferred or common stocks, and write-downs of former write-ups of fixed assets, all gains or losses attributable to *economic* causes should be reflected in long-run income. On the other hand, we consider that gains and losses due to political causes, principally war losses and subsequent recovery, are best omitted from income.

The all-inclusive approach to income requires flexibility in application. For example, although we stated above that "all gains and losses attributable to economic causes should be reflected in long-run income," when a lump-sum write-down of tangible assets (as in the 1930's) is charged to surplus and when it is of such magnitude as to destroy the usefulness of the earnings data if charged to income, it is necessary to accept the write-down as reported. While it is recognized that this action results in earnings inequities and disparities, we have not been able to find a practical alternative.

Appendix

The exact manner in which the "all-inclusive" approach has been employed is important to the analyst in interpreting the data developed. Accordingly, there is included in the Appendix brief statements as to the exact manner in which certain items are dealt with. There are also included statements with regard to specific balance sheet items requiring consideration in connection with the determination of common-stock capital and total capital.

COMPOSITE INDUSTRY DATA

The original data for all series are taken from individual company reports either to its stockholders or to the Securities and Exchange Commission. When individual company data were combined to provide industry series, several questions arose. The principal ones were: Should the industry ratios be simple averages of company ratios or weighted averages? What adjustments should be made for changes in the number of companies whose data enter the industry composite? What adjustments should be made for the acquisition of companies by a company in the industry sample?

The principles which were followed in regard to these questions are set forth so that the industry data will be fully understood.

Computation of Industry Ratios

The industry ratios are intended to depict the industry situation as the sample is constituted. In other words, if the industry sample consists of companies of varying size, it is considered that the experience of the large companies should have proportionally more weight than that of the smaller companies. Principally, for this reason, weighted industry ratios are computed from industry aggregates of the basic series. For example, when the earnings rates on total capital for an industry are computed, the earnings available total capital of the several companies in the industry are added and divided by the sum of the total capital of the several companies.

Changes in the Industry Sample

In a number of instances it was impossible to develop complete data over the full period of the study for each company in the sample. Thus, in compiling the data for an industry sample there may be information in the earliest years for only, say, four of the six companies chosen for the sample. However, the data for the two additional companies must be incorporated in the industry series for the years it is available. This situation results principally from the youthfulness of much of American industry and thus the fact that a number of today's major firms were either so closely held or of such limited size fifteen or twenty years ago that stock-price and other financial data are not available.

Contrariwise, the rash of postwar mergers has caused some companies to drop out because they were absorbed by companies not in the sample and, in some instances, not even in the industry.

Insofar as the industry ratios are concerned such changes in the composition of the industry sample create no serious problems. The industry ratios for each year are computed from the aggregates of the data for the companies included in the industry in the particular year. Therefore, although the adding or dropping of a company may have some effect on the industry ratios, it has only its rightful influence in proportion to its weight and does not give any predestined bias to the ratio.

In contrast, where the analysis is in terms of the aggregates themselves, such as growth in sales or total capital, some adjustment must be made when the number of companies from which the aggregates are obtained is increased or decreased. Otherwise, comparisons over time would be misleading. For example, comparisons of the sales of the Textile Fabric Industry in 1951–55 when five companies constituted the sample with those in 1935–39 when, for two years, only two companies were in the sample would exaggerate the sales growth of the industry. Therefore, growth in sales and total capital is presented in the form of index numbers computed by the chained-link relative method.[1] In this manner no growth is indicated because a new company enters the sample nor any decline because a company is removed.

Where changes in market value of the common stock of the industries is under review, the analysis is made in terms of stock-price indexes. These indexes are computed in a manner comparable to that employed by Standard and Poor's Corporation.

Acquisitions. There is another change which takes place in the composition of the sample as a result of one company acquiring another either through outright purchase, merger, consolidation, or some other form of combination. Acquisitions may be classified into four major types. First, a company in a sample may acquire a minor company outside the sample. In this instance, the increase in capital and earnings of the acquiring company is accepted. It is considered that there is no fundamental difference between growth in this form and growth resulting from the construction of facilities, the addition of new products, and the general expansion of operations. This type of acquisition is well illustrated by General Foods' acquisition in May, 1953, through an exchange of shares, of the common stock of Perkins Products Company, manufacturers of Kool-Aid.

Second, a company in the sample may acquire a major concern outside the sample. In contrast to the first situation, the sudden increase in the financial series of the acquiring firm may be of such proportions as to distort not only the individual company data but also that for the sample. Accordingly, through the use of the link relative method, the acquired company is handled in the same manner as when a new company is added to the sample. The acquisition of Sharp and Dohme, Inc. by Merck & Company, Inc., in 1953, under a plan of merger, is illustrative of this type of acquisition.

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[1] The link relative method is widely employed in calculating index numbers. Its objective is to reduce the disruptive influence of new items entering or present items leaving a sample. This is accomplished by computing the links on comparable sets of data; that is, when the link for, say 1940 is computed, it is essential that comparable data be used for both 1939 and 1940. Albert E. Waugh in *Elements of Statistical Method* summarizes the method as follows:

1. Calculate the index for each period with the data of the preceding period as a base.
2. Chain the links together to form a chain index with the first period as 100. This is done by calling the chain index for the first period 100 and then multiplying each link by the chain index of the preceding period.
3. Shift the chain index to the desired base by dividing each chain index number just found by the chain index number for the desired base period.

Third, a company within the sample may acquire another company also within the sample. This presents no problem because the individual data for each company are already included in the industry composite.

Fourth, a company within the sample may be acquired by a major company outside the sample. For example, in 1953 E. R. Squibb & Sons was merged with Mathieson Chemical Corporation. In such instances, the acquired company is dropped from its industry sample through using the link relative method.

Chapter 4

OVER-ALL ANALYSIS

It is well known that we live in a highly dynamic economy and, certainly in the postwar period, in a prosperous one. It is equally well known that the experiences of industries, as well as companies, are not identical. These facts raise a number of questions. For example, in this postwar prosperity, what has happened to the composite return on total capital for all thirty-three industries? Has every industry boomed over the nine-year span 1947–55? Over the last five years? If not, which ones were the leaders? The laggards? Considering the variations in earnings, how has this extended bull market appraised the common stock of the different industries? How do the earnings-price ratios of the last few years or of 1955 compare with the average of the twenty-one year span 1935–55? How do the dividend yields compare over the same periods? And so on.

It is the objective of the present chapter to highlight the major facts with respect to the foregoing and other questions. In this manner the broad aspects of the earnings and valuation data may be readily seen and the foundation laid for the more detailed discussion of the subsequent chapters.

To organize the mass of data compiled and to present effectively the facts developed from it, a consistent procedure is followed throughout this chapter. First, the experiences of the industries are segregated into two broad categories: earning power and market valuation. Second, within each category the composite performance of the thirty-three industries is examined and attention is then given to the highlights of individual industry experience.

EARNING POWER

Earnings Rate on Total Capital

Since earning power is the primary consideration in the appraisal of corporations, the most logical starting point for an over-all analysis is an examination of earnings performance. An analysis of the earnings rate on total capital for the industries covered brings out a number of significant points.

Changes in Levels. Over the twenty-one years from 1935 through 1955, marked changes have occurred in the level of the composite return on total capital for all industries. By beginning with this broad consideration of earnings and thus moving from the general to the specific, the fundamental aspects may be more readily discerned.

Note from Chart 1 and Table 3 that in every postwar year since 1946 the return on total capital for all industries combined was above—for most years substantially above—that for any year in the prewar and war span (1935–45). The earnings rate rose sharply from less than 8% in 1945 to a peak of 15% in 1948, declined to about 12% in 1949 and again reached 15% in 1950. It then dropped to a nearly constant level of about 11% in 1952, 1953, and 1954. In 1955 earnings recovered to 13%—two percentage points below the preceding peaks.

A comparison by periods amplifies the extent to which the postwar return on total capital of the thirty-three industries has been above the 1935–39 level. Over the 1947–55 span the earnings rate (12.5%) was 56% higher than during 1935–39 (8.0%). However, in the first half of the postwar period (1947–50) the return (13.8%) was higher than the return of 11.7% in the last half (1951–55). In the latter period, the earnings rate was approximately 46% above the 1935–39 average. It is to be noted, however, that the earnings rate on total capital of 12.9% in 1955 was slightly higher than the 1947–55 average (12.5%) and well above the 1951–55 level (11.7%).

Experience of Individual Industries. In a period during which industry as a whole has enjoyed substantially higher earnings, what has been the

Chart 1. COMPOSITE INDUSTRY PERFORMANCE

Earnings Rate on Total Capital

1935–1955

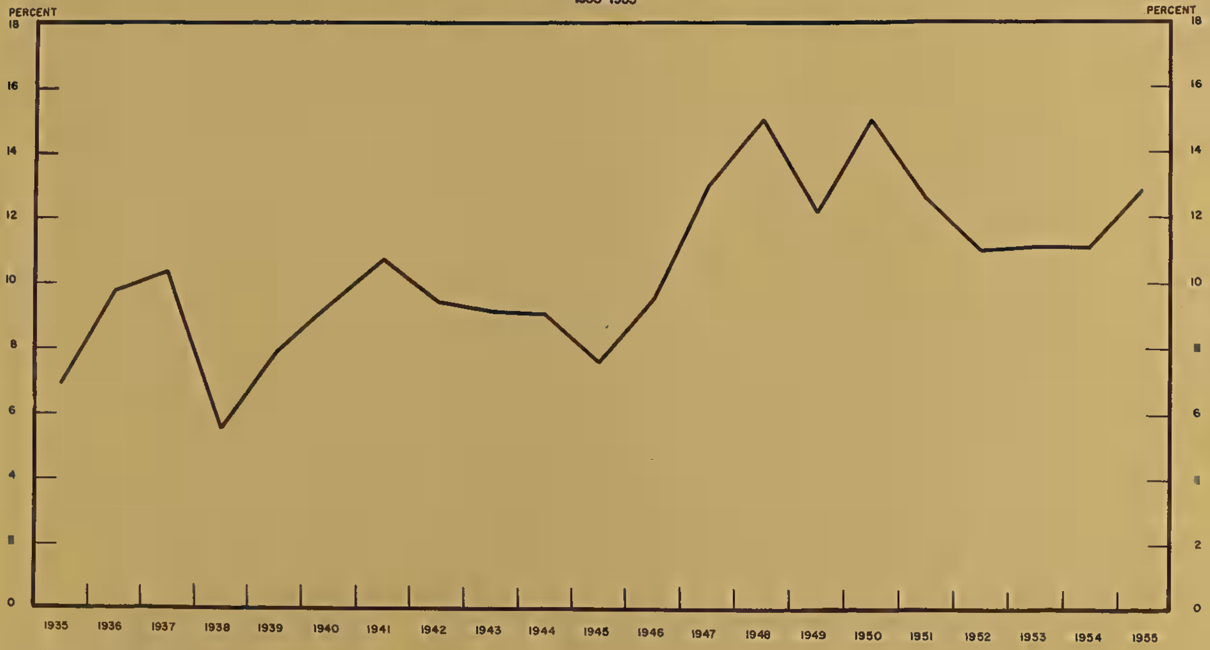


Table 3. COMPOSITE INDUSTRY PERFORMANCE

Earnings Rates on Total Capital
1935–1955

Year	Per cent
1935	6.9
1936	9.7
1937	10.3
1938	5.5
1939	7.8
1940	9.3
1941	10.7
1942	9.4
1943	9.1
1944	9.0
1945	7.5
1946	9.5
1947	13.0
1948	15.0
1949	12.2
1950	15.0
1951	12.6
1952	11.0
1953	11.1
1954	11.1
1955	12.9
1935–39	8.0
1947–55	12.5
1947–50	13.8
1951–55	11.7

Table 4. COMPARATIVE INDUSTRY PERFORMANCE

Earnings Rates on Total Capital
Industries Ranked According to Extent of Improvement
1951–55 Compared to 1935–39

Industry	Change 1935–39 to 1951–55	1951–55	1935–39
Steel	+210%	9.6%	3.1%
Paper & Allied Products	+140	12.0	5.0
Copper	+106	10.9	5.3
Oil	+ 97	12.4	6.3
Rubber	+ 90	10.8	5.7
Building Materials	+ 78	13.2	7.4
Textile Fabrics	+ 54	6.6	4.3
Corn Products	+ 48	12.0	8.1
Department Stores	+ 42	7.5	5.3
Aircraft	+ 36	19.1	13.8
Electrical Supplies & Equipment	+ 30	13.0	10.0
General Industrial Machinery	+ 27	12.2	9.6
Dairy Products	+ 17	8.8	7.5
Nonferrous Metals	+ 12	14.7	13.1
Automobiles	+ 6	21.9	20.5
Grain Mill Products	+ 5	8.2	7.8
Grocery Chain Stores	+ 2	8.7	8.5
Automobile Parts & Accessories	– 1	13.7	13.9
Chemicals	– 3	10.6	10.9
Glass Containers	– 4	11.9	12.4
Meat Packing	– 7	3.8	4.1
Toilet Preparations & Soap	– 9	12.3	13.5
Agricultural Machinery	– 10	7.4	8.2
Mail-Order Houses	– 11	11.0	12.3
Radio & Television	– 17	11.7	14.1
Metal Containers	– 18	8.4	10.3
Limited-Price Variety Stores	– 31	8.7	12.6
Apparel & Accessories	– 38	14.3	23.1
Packaged Foods	– 42	10.5	18.1
Ethical Drugs	– 44	13.4	24.1
Cigarettes	– 47	7.8	14.6
Proprietary Drugs	– 47	16.6	31.1
Distilling	– 52	7.0	14.5
Composite	+ 46	11.7	8.0

experience of individual industries? Bearing in mind that the composite return over the last five years was nearly one-half higher than in the prewar span, let us seek an answer in a comparison of the 1951–55 and 1935–39 earnings rates for the individual industries.

Table 4 brings out a striking fact. In one of the most prosperous periods in our history, the earnings rates on total capital for sixteen industries have been lower than their 1935–39 averages. In some instances the declines have been severe. For example, Distilling earned a return less than one half of its 1935–39 level. The Proprietary Drug and Cigarette

Table 5. COMPARATIVE INDUSTRY PERFORMANCE

Earnings Rates on Total Capital for Selected Periods
Industries Ranked According to Average Earnings Rate in Each Period

Industry	1935–55	Industry	1951–55	Industry	1947–55	Industry	1935–39	Industry	1955
Automobile	21.1%	Automobile	21.9%	Automobile	24.0%	Proprietary Drug	31.1%	Automobile	26.3%
Proprietary Drug	19.4	Aircraft	19.1	Apparel & Acc. Chains	17.2	Ethical Drug	24.1	Aircraft	22.9
Apparel & Acc. Chains	18.5	Proprietary Drug	16.6	Proprietary Drug	16.8	Apparel & Acc.	23.1	Proprietary Drug	20.2
Ethical Drug	17.1	Nonferrous Metals	14.7	Ethical Drug	15.6	Automobile	20.5	Nonferrous Metals	17.3
Aircraft	16.2	Apparel & Acc. Chains	14.3	Auto Parts & Acc.	15.4	Packaged Foods	18.1	Auto Parts & Acc.	15.9
Auto Parts & Acc.	15.8	Auto Parts & Acc.	13.7	Toilet Preps. & Soap	15.1	Cigarette	14.6	Building Materials	15.1
Toilet Preps. & Soap	14.8	Ethical Drug	13.4	Nonferrous Metals	14.5	Distilling	14.5	Apparel & Acc.	14.9
Radio & Television	14.3	Building Materials	13.2	Radio & Television	14.5	Radio & Television	14.1	Copper	14.3
Mail-Order Houses	13.3	Elect. Supplies & Equip.	13.0	Building Materials	14.2	Auto Parts & Acc.	13.9	Corn Products	14.1
Nonferrous Metals	13.1	Oil	12.4	Aircraft	13.8	Aircraft	13.8	Ethical Drug	13.4
General Ind. Machy.	13.0	Toilet Preps. & Soap	12.3	Mail-Order Houses	13.6	Toilet Preps. & Soap	13.5	Glass Container	13.1
Packaged Foods	12.7	General Ind. Machy.	12.2	Elect. Supplies & Equip.	13.6	Nonferrous Metals	13.1	Toilet Preps. & Soap	12.9
Glass Container	12.6	Corn Products	12.0	General Ind. Machy.	13.5	Limited-Price Variety	12.6	Paper & Allied Prods.	12.6
Elect. Supplies & Equip.	12.4	Paper & Allied Prods.	12.0	Paper & Allied Prods.	13.1	Glass Container	12.4	Steel	12.6
Building Materials	12.4	Glass Container	11.9	Corn Products	13.1	Mail-Order Houses	12.3	Packaged Foods	12.3
Chemical	11.6	Radio & Television	11.7	Glass Container	12.6	Chemical	10.9	Oil	12.0
Distilling	11.3	Mail-Order Houses	11.0	Oil	12.4	Metal Container	10.3	General Ind. Machy.	11.5
Corn Products	11.1	Copper	10.9	Chemical	11.9	Elect. Supplies & Equip.	10.0	Chemical	11.5
Limited-Price Variety	11.1	Rubber	10.8	Copper	11.2	General Ind. Machy.	9.6	Elect. Supplies & Equip.	11.3
Textile Fabrics	11.1	Chemical	10.6	Packaged Foods	11.0	Grocery Chain Stores	8.5	Rubber	11.1
Paper & Allied Products	11.0	Packaged Foods	10.5	Textile Fabrics	11.0	Agricultural Machinery	8.2	Mail-Order Houses	11.0
Oil	10.3	Steel	9.6	Limited-Price Variety	10.8	Corn Products	8.1	Radio & Television	9.8
Rubber	10.1	Dairy Products	8.8	Rubber	10.7	Grain Mill Products	7.8	Dairy Products	9.8
Grocery Chain Stores	9.9	Grocery Chain Stores	8.7	Grocery Chain Stores	10.3	Dairy Products	7.5	Cigarette	9.4
Cigarette	9.8	Limited-Price Variety	8.7	Distilling	9.9	Building Materials	7.4	Limited-Price Variety	9.3
Dairy Products	9.5	Metal Container	8.4	Steel	9.8	Oil	6.3	Metal Container	9.1
Copper	8.9	Grain Mill Products	8.2	Dairy Products	9.7	Rubber	5.7	Grocery Chain Stores	8.7
Metal Container	8.7	Cigarette	7.8	Metal Container	9.1	Department Stores	5.3	Grain Mill Products	8.4
Agricultural Machinery	8.6	Department Stores	7.5	Agricultural Machinery	8.9	Copper	5.3	Department Stores	8.3
Grain Mill Products	8.6	Agricultural Machinery	7.4	Department Stores	8.8	Paper & Allied Prods.	5.0	Textile Fabrics	6.9
Department Stores	8.3	Distilling	7.0	Grain Mill Products	8.7	Textile Fabrics	4.2	Agricultural Machinery	6.7
Steel	7.2	Textile Fabrics	6.6	Cigarette	8.6	Meat Packing	4.1	Distilling	6.1
Meat Packing	5.0	Meat Packing	3.8	Meat Packing	4.7	Steel	3.1	Meat Packing	4.1

industries suffered declines of 47% each. Ethical Drugs was 44% below its 1935–39 average. Packaged Foods was down 42%, followed by Apparel & Accessories down 38%. It will be noted that even Chemicals showed a 3% decline. Although differences in depreciation policies between the two periods and like factors may explain some of the change, it may well be that the major declines are attributable to more deep-seated considerations.

If some industries suffered such a severe decline then others must have had a marked increase in earnings. Who were the leaders? Steel with an increase of 210% leads the list by a wide margin. It is followed by Paper & Allied Products up 140%, Copper 106%, Oil 97%, and Rubber 90%.

Differences in Long-Run Patterns. Examination of the earnings data also brings out the marked differences which exist in both the long-run earnings levels and patterns of the various industries. The fundamental differences in earning power may be indicated in part by the average earnings rates on total capital over the twenty-one year span 1935–55. From Table 5, note that the range is from a low of 5% for Meat Packing to a high of 21% for the Automobile Industry. Examination of the data reveals that there is a definite cluster in the earnings rates. Whereas the thirty-three industries were spread over an earnings range of sixteen percentage points (5% to 21%), the earnings rates of sixteen of the industries were concentrated within a range of four percentage points (9.8% to 13.8%). Analysis of the earnings data for 1955, 1951–55, 1947–55 shows like clustering between four to five percentage points. In contrast, in the 1935–39 period both the over-all range was much wider—being spread over twenty-eight percentage points—and the cluster of the center sixteen industries was less pronounced—being spread over 6.5 percentage points (7.5% to 14%).

While a long-run average of the return on total capital is a helpful measure of the earnings capacity of an industry, it is subject to a number of infirmities. For example, two industries with opposing earnings trends—one having a marked downward drift and the other an equally marked upward movement—can by coincidence have identical long-run average earnings rates. Likewise, two industries with substantially different earnings patterns—one having little fluctuations in earnings and the other wide cyclical swings—can have the same average return on capital over a span of years. Thus an average does not indicate either the trend or the stability of earnings. For this reason, it is necessary to examine the earnings records of the individual industries over the 1935–55 period to see whether there are any with marked trends or other pronounced characteristics.

Chart 2 provides a basis for visually reviewing the earnings pattern of each of the thirty-three industries. First consider the industries whose earnings pattern over the twenty-one year span is characterized by a long-run upward or downward tilt. While the trend is less pronounced in some instances than in others, it may be considered that in general the following industries have had a downward drift in earnings:

Proprietary Drugs
Ethical Drugs
Packaged Foods
Apparel & Accessories Chain Stores
Distilling
Cigarettes

Contrariwise, over the 1935–55 period the following industries have had an upward trend in their earnings rate on total capital:

Paper
Oil
Steel
Building Materials
Copper
Corn Products
Rubber

Let us next examine the relative earnings stability of the industries. Putting aside the Aircraft Industry, which for well-known reasons has had violent swings in earnings, it is to be seen from Chart 2 that the Textile Fabrics, Meat Packing, Distilling, Radio & Television, Automobile Parts & Accessories, and Automobile industries have had the widest fluctuations in the earnings rates on total capital. In contrast, Grain Mill Products and Dairy Products have had the most stability.

Prewar and Postwar Earnings Standings. Considering the wide differences in earnings levels and patterns between the individual industries and the substantial variations in their participation in the postwar prosperity, it is helpful to examine the relative prewar and postwar earnings standings of the industries and any changes in their earnings rates for selected periods.

Chart 3 and Table 5 set forth the prewar (1935–39) and postwar (1947–55 and 1951–55) rankings of the industries. To facilitate graphic comparison, the thirty-three industries are divided in each period into three equal groups which are labeled the "highest," "middle," and "lowest" earnings group, respectively. If an interperiod comparison is made of the industries comprising each earnings group, it will be seen that seven industries—Automobiles, Aircraft, Proprietary Drugs, Apparel & Accessories Chain Stores, Automobile Parts & Accessories, Ethical Drugs, and Toilet Preparations & Soap—remained in the highest earnings group in all three periods; only four—General Industrial Machinery & Equipment, Corn Products, Glass Containers, and Chemicals—were continuously in the middle group; and similarly, only four industries—Dairy Products, Grain Mill Products, Department Stores, and Meat Packing—were constantly in the lowest group. In other words, based on comparative performance for the three selected spans of years, the industry rankings were characterized more by change than by stability. With this fact in mind, the next step is to determine the most striking changes.

The extent of the shifts in position may be judged by comparing the standing of an industry in the latest period—1951–55—against that in 1935–39 and by counting the number of "rungs" that it has climbed or fallen on the ranking "ladder." Table 6, by listing the industries beginning with those which had the greatest improvement in ranking and extending through those which declined the most, shows the extent of the shift in position. Note that only two industries had no change and that on one extreme the Building Materials Industry rose seventeen "rungs" and on the other Distilling dropped twenty-four.

Arbitrarily taking a shift of eight or more "rungs" [illegible] constituting a marked change and excluding the Aircraft Industry (because it is affected principally by noneconomic factors), it is to be seen that nine industries enjoyed marked improvement and seven suffered [illegible] marked decline.

Table 6. COMPARATIVE INDUSTRY PERFORMANCE

Changes in Earnings on Total Capital Ranking
Industries Listed According to Extent of Improvement
1951–1955 Compared to 1935–1939

Industry	Change	1951–55 Ranking	1935–39 Ranking
Building Materials	+17	8	25
Oil	+16	10	26
Paper & Allied Products	+16	14	30
Steel	+11	22	33
Copper	+10	18	[illegible]
Corn Products	+ 9	13	22
Electrical Supplies & Equipment	+ 9	9	18
Aircraft	+ 8	2	10
Nonferrous Metals	+ 8	4	12
Rubber	+ 8	19	27
General Industrial Machinery	+ 7	12	19
Automobiles	+ 3	1	[illegible]
Automobile Parts & Accessories	+ 3	6	9
Dairy Products	+ 1	23	24
Department Stores	0	29	29
Toilet Preparations & Soap	0	11	11
Glass Containers	– 1	15	14
Meat Packing	– 1	33	32
Textile Fabrics	– 1	32	31
Apparel & Accessories Chain Stores	– 2	5	3
Mail-Order Houses	– 2	17	15
Proprietary Drugs	– 2	[illegible]	1
Chemicals	– 4	20	16
Grain Mill Products	– 4	27	23
Grocery Chain Stores	– 4	24	20
Ethical Drugs	– 5	7	2
Radio & Television	– [illegible]	16	8
Agricultural Machinery	– 9	30	21
Metal Containers	– 9	26	17
Limited-Price Variety Stores	–12	25	13
Packaged Foods	–16	21	5
Cigarettes	–22	28	6
Distilling	–24	31	7

Chart 2. COMPARATIVE INDUSTRY [redacted]

Earnings Rates on Total Capital
Ranked According to 1951–1955 Average
1935–1955

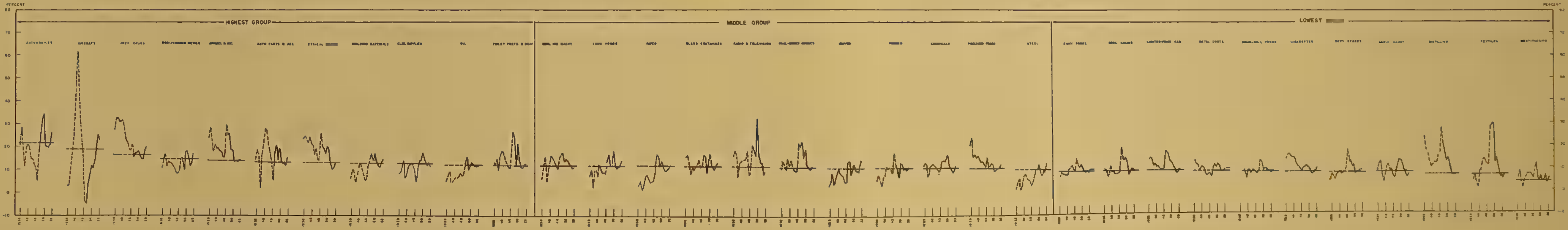
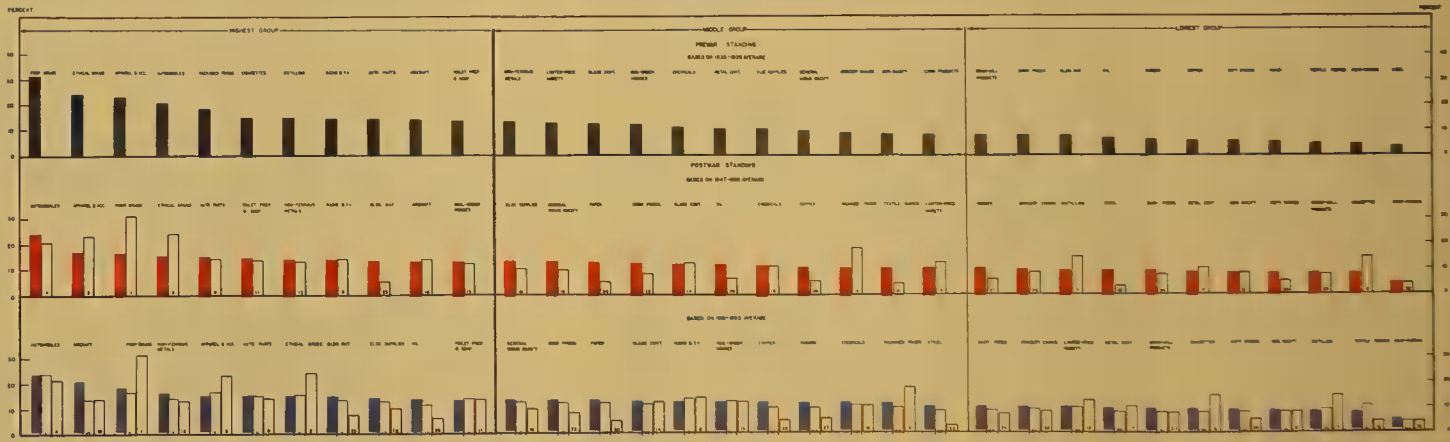


Chart 3. COMPARATIVE INDUSTRY PERFORMANCE

Average Earnings Rates on Total Capital for Selected Periods



Let us consider briefly the individual industries which had a striking change in earnings position.

Beginning on the plus side, the Building Materials Industry, which climbed from twenty-fifth position in 1935–39 to eighth in 1951–55, had the most outstanding improvement. In the latter period the Industry's average earnings rate of 13.2% was 78% above the 1935–39 level of 7.4% (Table 4) and the Industry stood in the highest earnings group.

Closely following Building Materials were the Oil and the Paper & Allied Products industries. Both rose sixteen rankings. Oil came from twenty-sixth to tenth place and Paper from almost the bottom of the list to fourteenth place. Oil's earnings rate on total capital increased from 6.3% to 12.4% and the Paper Industry's from 5.0% to 12.0%.

Steel and Copper are the two next ranking industries in terms of improvement. The former climbed up eleven rungs—from the lowest position in the entire list to twenty-second place. As previously noted, Steel showed the highest percentage increase in earnings of all of the industries studied. The Copper Industry moved up from twenty-eighth to eighteenth place and earnings rose from 5.3% to 10.9%.

Two industries—Corn Products and Electrical Supplies & Equipment—moved forward nine "rungs" on the ranking ladder. The former came from twenty-second to thirteenth place and the latter from eighteenth position to ninth. Comparing the average earnings rate on total capital in the prewar and postwar periods, the Corn Products Industry's rate improved from 8.1% to 12.0% and Electrical Supplies & Equipment's from 10.0% to 13.0%.

Again excluding Aircraft, the two remaining industries enjoying "marked" improvement are Nonferrous Metals and Rubber. Both industries moved up eight places. Nonferrous Metals came from twelfth place in 1935–39 to be one of the top earners, standing in fourth place. The Industry's higher standing, which was accomplished with an increase in the earnings rate of from 13.1% to 14.7% was due more to decline of other industries than its own improvement. Although moving forward the same number of "rungs," Rubber came from considerably lower levels (from twenty-seventh to nineteenth place). The Rubber Industry's earnings rate rose from 5.7% to 10.8%.

For all of the foregoing industries, a comparison of the 1935–39 and 1951–55 results showed marked improvement. What were the industries which, on the same basis, had a marked decline?

Distilling suffered the severest drop in standing, falling from seventh place to thirty-first. In the prewar period the Industry earned 14.5% and in 1951–55 it dropped by more than one-half to 7.0%.

Next came the Cigarette Industry, which dropped from sixth to twenty-eighth place and suffered a decline in earnings from 14.6% to 7.8%. Closely following was the Packaged Foods Industry. Its fall from fifth to twenty-first place was accompanied by an earnings decrease from 18.1% to 10.5%. Limited-Price Variety Stores was next in line with a drop from thirteenth to twenty-fifth place. Earnings fell from 12.6% to 8.7%.

Metal Containers and Agricultural Machinery both suffered a decline of nine "rungs." The former fell from seventeenth to twenty-sixth place and the latter from twenty-first to thirtieth place. The Metal Container Industry's earnings slipped from 10.3% to 8.4% and Agricultural Machinery's from 8.2% to 7.4%.

Radio and Television dropped from eighth place in 1935–39 to sixteenth in 1951–55. This decline was just sufficient to bring the Industry within the "marked" change group. Earnings declined from 14.1% to 11.7%.

A comparison of the 1951–55 and 1955 rankings of the industries brings out the fact that only a limited number of changes of significance occurred. In 1955 three industries—Oils, Electrical Supplies & Equipment, and Toilet Preparations & Soap—dropped from the top eleven into the second group. Contrariwise, three industries—Corn Products, Glass Containers, and Copper—moved from the second group up to the top level. Interestingly, no change occurred in the composition of the bottom group.

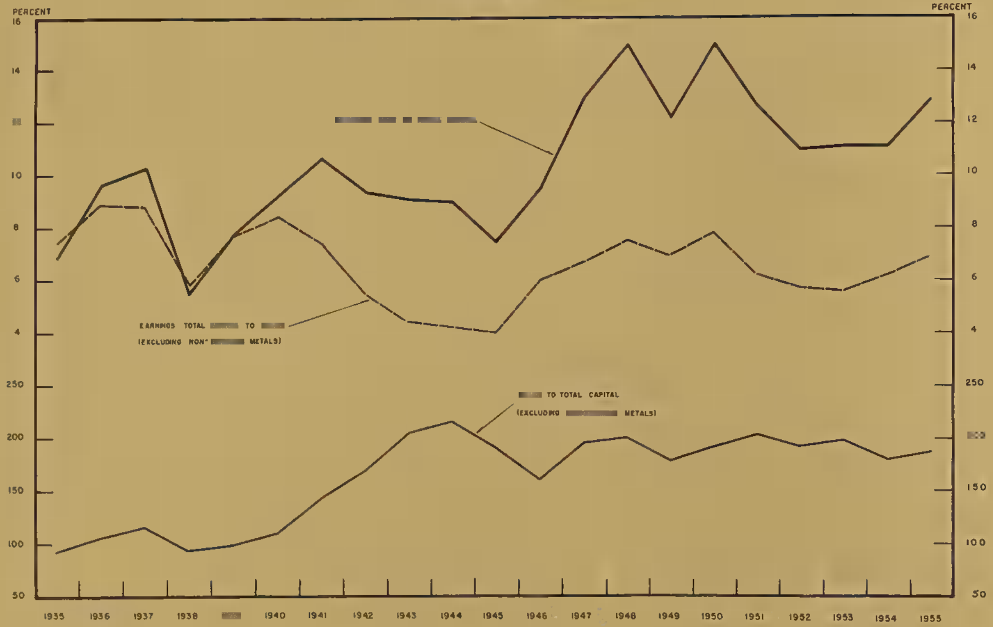
Electrical Supplies & Equipment, which went from ninth to nineteenth place, had the most pronounced decline and Copper, which rose from eighteenth to eighth place, had the greatest rise.

Sales Series

As set forth in Chapter 3, the earnings rate on total capital is the

Chart 4. COMPOSITE INDUSTRY PERFORMANCE

Earnings Rate on Total Capital
Earnings Available Total Capital to Sales
Sales to Total Capital
1935–1955



product of the "profit margin" (earnings available total capital to sales) and capital turnover (net sales to total capital). Because changes in the earnings rate can result only from changes in either one or both of these two factors, a broad review of these two ratios is a helpful supplement to the foregoing consideration of highlights in the return on total capital over the past twenty-one years.

Profit Margins. Note from Chart 4 and Table 7 that in no postwar year was the composite profit margin for the thirty-two industries as high as in 1936, 1937, or 1940. In fact, only in 1950 did the profit margin equal the 1935–39 level of 7.8%. The average for the entire postwar period (6.5%) is approximately 17% below the prewar figure and the 1951–55 average is nearly 22% below the prewar level. In 1955 there was considerable improvement.

Table [redacted] provides a comparison of the 1951–55 and 1955 earnings rates of individual industries with their 1935–39 averages. The industries are ranked according to the percentage improvement in 1951–55 over 1935–39. The Nonferrous Metals Industry is excluded because the sales data are not comparable across the entire span. The results are striking. It will be recalled that the composite earnings rate on total capital for all thirty-three industries was substantially higher in 1951–55 than in 1935–39 (11.7% versus 8.0%). However, note from Table 8 that only five industries—Textile Fabrics, Oil, Building Materials, Steel, and Paper & Allied Products—had higher profit margins than in 1935–39. In contrast, the other twenty-seven industries had profit-margin declines ranging from 8% to nearly 70%. There were eleven industries whose profit margins in 1951–55 were one half or less than their 1935–39 levels. The five industries which had the most severe declines were Aircraft, Packaged Foods, Proprietary Drugs, Radio & Television, and Meat Packing. On a weighted average basis, the composite profit margin for the thirty-two industries in 1951–55 was 22% below that for 1935–39.

In the single year 1955 six industries had higher profit margins than in 1935–39. These were the previously cited five plus one additional industry—Copper. Although this fact does not indicate much improvement, it was actually significantly more substantial. On a weighted average basis the composite profit margin (6.9%) was less than 12% below

Table 7. COMPOSITE INDUSTRY PERFORMANCE

Earnings Rates on Total Capital
Earnings Available Total Capital to Sales
Sales to Total Capital
1935–1955

Year	Earnings Rate on Total Capital[1]	Earnings Available Total Capital to Sales	Sales to Total Capital
1935	6.9%	7.4%	92%
1936	9.7	8.9	105
1937	10.3	8.8	115
1938	5.5	5.8	93
1939	7.8	7.7	99
1940	9.3	8.4	110
1941	10.7	7.4	144
1942	9.4	5.5	159
1943	9.1	4.4	204
1944	9.0	4.2	215
1945	7.5	4.0	190
1946	9.5	6.0	159
1947	13.0	6.7	195
1948	15.0	7.5	200
1949	12.2	6.9	178
1950	15.0	7.8	192
1951	12.6	6.2	203
1952	11.0	5.7	193
1953	11.1	5.6	198
1954	11.1	6.2	180
1955	12.9	6.9	187
1935–39	8.0	7.8	101
1947–55	12.5	6.5	191
1947–50	13.8	7.2	191
1951–55	11.7	6.1	191

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[1] Thirty-three industries The other two [redacted] do not include the Nonferrous Metals Industry.

Table 8. COMPARATIVE INDUSTRY PERFORMANCE

Earnings Available Total Capital to Sales
Industries Ranked According to Extent of Improvement
1951–1955 Compared to 1935–1939

Industry	Change 1935–39 to 1951–55	1951–55	1935–39	1955	Change 1935–39 to 1955
Textile Fabrics	+26.7%	3.8%	3.0%	4.1%	+36.7%
Oil	+17.6	12.0	10.2	11.7	+14.7
Building Materials	+10.8	9.2	8.3	10.3	+24.1
Steel	+ 4.8	6.5	6.2	8.5	+37.1
Paper & Allied Products	+ 3.5	8.8	8.5	9.5	+11.8
Copper	− 8.5	15.1	16.5	17.8	+ 7.9
Rubber	−11.5	4.6	5.2	4.9	− 5.8
Department Stores	−15.2	2.8	3.3	3.1	− 6.1
Mail-Order Houses	−18.5	4.4	5.4	4.6	−14.8
Dairy Products	−22.9	2.7	3.5	3.0	−14.3
Chemicals	−36.2	9.5	14.9	10.3	−30.9
Grocery Chain Stores	−37.5	1.0	1.6	1.1	−31.2
Grain Mill Products	−38.7	1.9	3.1	2.2	−29.0
Automobile Parts & Accessories	−40.5	4.7	7.9	5.7	−27.8
Automobiles	−43.6	6.6	11.7	8.1	−30.8
Toilet Preparations & Soap	−43.6	5.3	9.4	5.8	−38.3
General Industrial Machinery	−44.1	6.2	11.1	6.8	−38.7
Ethical Drugs	−44.2	10.1	18.1	10.7	−40.9
Glass Containers	−44.6	5.6	10.1	6.6	−34.7
Apparel & Accessories Chain Stores	−45.9	3.3	6.1	3.4	−44.3
Corn Products	−46.0	7.4	13.7	7.1	−48.2
Limited-Price Variety Stores	−50.0	4.0	8.0	4.4	−45.0
Electrical Supplies & Equipment	−50.9	5.4	11.0	5.1	−53.6
Agricultural Machinery	−50.9	5.2	10.6	5.3	−50.0
Cigarettes	−54.6	4.4	9.7	5.5	−43.3
Distilling	−57.0	4.3	10.0	3.9	−61.0
Metal Containers	−57.0	4.3	10.0	4.5	−55.0
Meat Packing	−57.2	.6	1.4	.7	−50.0
Radio & Television	−57.2	3.6	8.4	3.4	−59.5
Proprietary Drugs	−63.2	7.8	21.2	9.3	−56.1
Packaged Foods	−67.0	3.4	10.3	3.8	−63.1
Aircraft	−69.4	3.0	9.8	3.8	−61.2
Composite	−21.8	6.1	7.8	6.9	−11.5

the 1935–39 level (7.8%), which is considerably better than the 1951–55 level of nearly 22% below 1935–39. In fact, over the 1947–55 period there were only two years—1948 and 1950—which had better profit margins.

In view of the fact that the return on total capital was higher in 1951–55 than in 1935–39 and that the profit margin was lower, the improved earnings rate must be due entirely to a substantial increase in the amount of sales per dollar of capital.

Capital Turnover. Turning again to Chart 4 and Table 7, note that a profound change has taken place in the capital turnover ratio. In every postwar year the ratio is much above that for even the best prewar year. This situation is in sharp contrast to that for the profit margin.

In 1935–39, the thirty-two industries (Nonferrous Metals was excluded from this composite for the reason previously stated) had $1.01 of sales for each dollar of total capital, whereas in 1951–55 there was $1.91 of sales for each dollar of capital. In other words, on a composite basis over the last five years industry has nearly doubled the amount of sales per dollar of capital that was obtained in the prewar span. This pronounced increase becomes even more striking if the experience of the individual industries is examined.

In Table 9 the individual industries are arrayed in the order of their improvement in 1951–55 over 1935–39. Ethical Drugs was the only industry which did not have a higher capital turnover in the latter period. Putting aside Aircraft, the four top-ranking industries were Steel, Corn Products, Electrical Supplies & Equipment, and Paper & Allied Products. Note from Table 8 that two of these—Steel and Paper & Allied Products—were among those few industries showing an improvement in profit margins. Next to Ethical Drugs, which has already been referred to, those industries showing the least improvement in capital turnover were Apparel & Accessories Chain Stores, Cigarettes, Distilling, and Mail-Order Houses.

In 1955 the thirty-two industries had composite sales of $1.87 per dollar of total capital. This figure is above 1954's $1.80 but slightly below the 1951–55 level of $1.91. In this year Ethical Drugs remained the only industry with capital turnover below the 1935–39 level.

The foregoing leaves no doubt as to the explanation for the higher postwar return on total capital. In this prosperous postwar span industry has had lower rather than increased profit margins. Its higher earnings, therefore, are due entirely to volume: that is, the ability to produce and sell substantially more per dollar of capital investment in 1951–55 than in 1935–39.

Sales Growth. The relative sales growth for each of the thirty-two industries is shown by sales indexes in Table 10. The indexes are based on 1935–39 as 100. Thus the index for any year represents the per cent which that year's dollar sales are of 1935–39. Although data are included for 1955, the better measure of growth is the percentage increase from 1935–39 to 1951–55. In Table 10 the industries are ranked according to their indexes for the latter period. The Aircraft and Radio & Television industries far outstripped all others. This growth is to be anticipated in view of the relative immaturity of both industries in the prewar period. Putting aside these two industries, a wide spread exists in the amount of increase enjoyed by the individual industries. The Sales Index of Limited-Price Variety Stores rose only to 256 whereas the Index for Automobile Parts & Accessories skyrocketed to over 900.

Not only is there a marked difference in the sales growth between industries but also there is no clear-cut relationship between an increase in sales and a change in either capital turnover or the rate of return on total capital.

Earnings Rate on Common Stock Capital

For a company with an all-common-stock capital structure, the earnings rate on common stock capital and on total capital, of necessity, will be the same. Accordingly, any difference between the earnings rate on equity capital and on total capital is due to the existence of senior securities. Therefore, an examination of capital structure proportions is a necessary prelude to a consideration of the return on common stock capital.

Common Stock as a Per Cent of Total Capital. Table 11 provides comparative data for common stock as a per cent of total capital for the 1951–55 and 1935–39 periods and for 1955. It also provides comparative

Table 9. COMPARATIVE INDUSTRY PERFORMANCE

Sales to Total Capital
Industries Ranked According to Extent of Improvement
1951–1955 Compared to 1935–1939

Industry	Change 1935–39 to 1951–55	1951–55	1935–39	1955	Change 1935–39 to 1955
Aircraft	+346.1%	629%	141%	596%	+322.7%
Steel	+196.0	148	50	148	+196.0
Corn Products	+174.6	162	59	197	+233.9
Electrical Supplies & Equipment	+165.9	242	91	222	+144.0
Paper & Allied Products	+134.5	136	58	133	+129.3
General Industrial Machinery	+129.1	197	86	168	+ 95.3
Copper	+125.0	72	32	80	+150.0
Meat Packing	+124.1	641	286	583	+103.8
Rubber	+113.8	233	109	226	+107.3
Radio & Television	+ 95.2	328	168	288	+ 71.4
Automobiles	+ 90.3	333	175	325	+ 85.7
Metal Containers	+ 87.5	195	104	203	+ 95.2
Agricultural Machinery	+ 83.3	143	78	126	+ 61.5
Packaged Foods	+ 75.0	308	176	325	+ 84.7
Glass Containers	+ 72.4	212	123	197	+ 60.2
Oil	+ 68.9	103	61	103	+ 68.9
Grain Mill Products	+ 68.8	422	250	390	+ 56.0
Department Stores	+ 67.7	265	158	264	+ 67.1
Automobile Parts & Accessories	+ 66.5	293	176	279	+ 58.5
Toilet Preparations & Soap	+ 62.2	232	143	224	+ 56.6
Building Materials	+ 61.8	144	89	147	+ 65.2
Grocery Chain Stores	+ 56.7	854	545	802	+ 47.2
Dairy Products	+ 54.7	328	212	327	+ 54.2
Chemicals	+ 53.4	112	73	112	+ 53.4
Proprietary Drugs	+ 45.2	212	146	218	+ 49.3
Limited-Price Variety Stores	+ 36.7	216	158	210	+ 32.9
Textile Fabrics	+ 21.5	175	144	170	+ 18.0
Apparel & Accessories Chain Stores	+ 16.2	437	376	435	+ 15.7
Cigarettes	+ 15.9	175	151	171	+ 13.2
Distilling	+ 11.8	161	144	156	+ 8.3
Mail-Order Houses	+ 10.1	250	227	239	+ 5.3
Ethical Drugs	– .8	132	133	126	– 5.3
Composite	+ 89.1	191	101	187	+ 85.1

Table 10. COMPARATIVE INDUSTRY PERFORMANCE

Sales Indexes 1951–1955 and 1955
1935–39 = 100

Industry	1951–55 Sales Index	1955 Sales Index
Aircraft	3796.5	4822.4
Radio & Television	1860.5	2005.1
Automobile Parts & Accessories	914.6	1005.5
Electrical Supplies & Equipment	869.8	913.7
Paper & Allied Products	746.0	924.6
Distilling	737.3	733.5
General Industrial Machinery	682.8	676.4
Chemicals	644.7	782.5
Automobiles	641.5	832.1
Textile Fabrics	630.2	693.6
Proprietary Drugs	624.2	701.5
Building Materials	611.7	719.1
Rubber	589.2	664.7
Ethical Drugs	570.9	578.2
Agricultural Machinery	506.0	498.9
Steel	502.0	574.8
Packaged Foods	501.2	575.8
Oil	462.8	550.3
Grocery Chain Stores	461.7	516.6
Metal Containers	457.6	527.2
Mail-Order Houses	442.0	475.1
Apparel & Accessories Chain Stores	432.6	469.6
Grain Mill Products	413.5	431.7
Toilet Preparations & Soap	403.1	444.0
Glass Containers	398.1	443.2
Department Stores	379.1	413.5
Copper	358.8	437.5
Dairy Products	352.6	373.9
Corn Products	341.3	356.0
Cigarettes	325.9	330.8
Meat Packing	292.6	267.1
Limited-Price Variety Stores	256.0	274.7

earnings rate data for common stock and total capital for 1951–55 and 1955. With the exception of the information for 1955, the same statistics are graphically presented in the lower field of Chart 5.

On an aggregate basis, common stock constituted a slightly higher per cent of total capital in 1951–55 (80%) than in 1935–39 (76%). Although there was little over-all change in capital structure proportions between the selected prewar and postwar periods, there were some marked changes in the capital structures of individual industries. For example, the following industries increased significantly the equity portion of their capital structure:

Industry	1951–55	1935–39	Percentage Points Change
Rubber	63%	29%	+34
Paper & Allied Products	76	42	+34
Meat Packing	68	53	+15
General Industrial Machinery	87	73	+14
Nonferrous Metals	87	73	+14
Steel	78	65	+13

In contrast, the following six industries substantially reduced the common stock proportions of their total capital:

Industry	1951–55	1935–39	Percentage Points Change
Chemicals	68%	88%	−20
Cigarettes	57	75	−18
Textile Fabrics	78	95	−17
Grocery Chain Stores	68	84	−16
Proprietary Drugs	80	96	−16
Electrical Supplies & Equipment	83	96	−13

As is to be expected, in most instances the common stock to total capital relationship in 1955 was very close to the 1951–55 average. For all industries, the 1955 and 1951–55 weighted averages were identical (80%).

In addition to varying changes in capital structure proportions over time, wide differences existed in common stock proportions between industries in both the prewar and postwar periods. In 1935–39 they ranged from 96% (Aircraft, Electrical Supplies & Equipment, and Proprietary Drugs) to 29% (Rubber) and in 1951–55 from 96% (Copper) to 57% (Cigarettes).

Table 11. COMPARATIVE INDUSTRY PERFORMANCE

Common Stock as Per cent of Total Capital
Earnings Rates [illegible] Common Stock and Total Capital
Industries Ranked According to 1951–55 Percentages

Industry	Common Stock [illegible] Per cent of Total Capital			Earnings Rates					
				1951–55		1935–39		1955	
	1951–55	1935–39	1955	Common	Total Capital	Common	Total Capital	Common	Total Capital
Copper	96%	94%	93%	11.3%	10.9%	5.3%	5.3%	15.2%	14.3%
Aircraft	94	96	92	19.7	19.1	13.0	13.8	24.3	22.9
Limited-Price Variety	90	93	86	9.4	8.7	13.1	12.6	10.6	9.3
Apparel [illegible] Accessories Chain Stores	[illegible]	94	89	15.9	14.3	24.4	23.1	16.5	14.9
Automobile	89	83	86	24.1	21.9	23.8	20.5	30.1	26.3
Automobile Parts [illegible] Accessories	89	[illegible]	91	15.1	13.7	15.3	13.9	17.2	15.9
Building Materials	88	84	90	14.4	13.2	7.7	7.4	16.5	15.1
General Industrial Machinery	87	73	85	13.7	12.2	11.2	9.6	13.2	11.5
Mail-Order Houses	87	95	88	12.3	11.0	12.6	12.3	12.3	11.0
Nonferrous Metals	87	73	88	16.0	14.7	15.6	13.1	18.8	17.3
Glass Containers	87	90	80	13.4	11.9	13.4	12.4	15.9	13.1
Toilet Preparations & Soap	86	75	85	14.1	12.3	15.5	13.5	14.9	12.9
Corn Products	85	79	86	12.9	12.0	8.4	8.1	15.2	14.1
Oil	83	83	85	14.1	12.4	6.4	6.3	13.8	12.0
Electrical Supplies & Equipment	83	96	82	15.3	13.0	10.3	10.0	13.4	11.3
Proprietary Drugs	80	96	83	20.0	16.6	32.0	31.1	23.7	20.2
Ethical Drugs	78	78	79	16.1	13.4	29.2	24.1	15.9	13.4
Steel	78	65	79	11.3	9.6	1.5	3.1	15.1	12.6
Textile Fabrics	78	95	70	7.9	6.6	4.4	4.3	9.0	6.9
Paper & Allied Products	76	42	78	14.9	12.0	4.7	5.0	15.4	12.6
Agricultural Machinery	75	74	75	8.7	7.4	8.9	8.2	7.9	6.7
Dairy Products	74	71	77	11.3	8.8	8.7	7.5	12.3	9.8
Packaged Foods	74	86	78	13.3	10.5	20.1	18.1	15.1	12.3
Radio & Television	73	61	73	15.0	11.7	20.2	14.1	12.4	9.8
Grain Mill Products	71	66	72	10.1	8.2	8.8	7.8	10.6	8.4
Metal Containers	71	79	72	10.7	8.4	11.3	10.3	11.5	9.1
Distilling	70	64	73	9.2	7.0	19.7	14.5	7.5	6.1
Grocery Chain Stores	68	84	66	11.6	8.7	9.0	8.5	11.9	8.7
Meat Packing	68	53	69	4.4	3.8	3.3	4.1	5.1	4.1
Chemical	68	88	65	14.8	10.6	11.6	10.9	16.8	11.5
Department Stores	63	50	64	10.2	7.5	5.3	5.3	11.4	8.3
Rubber	63	29	67	15.5	10.8	7.8	5.7	15.3	11.1
Cigarette	57	75	60	12.0	7.8	17.5	14.6	14.2	9.4
Composite	80	76	80	14.0	11.7	8.8	8.0	15.4	12.9

Comparative Return on Common Stock and on Total Capital. As the common-stock proportion of a given company's or industry's total capital is reduced the leverage is increased and thus the fluctuations in the earnings rate on equity capital are considerably amplified. Put another way, if all other factors remain the same, as the leverage is increased the difference between the earnings rate on common-stock capital and total capital will widen. This fact is clearly illustrated in Table 11 and in the lower field of Chart 5. In both the table and chart, the industries are arranged beginning with the industry which has the largest proportion of common-stock capital (lowest leverage) and ending with that one with the smallest proportion (highest leverage). The extent to which leverage increased the return on the common stock over that on total capital may be readily seen. In the 1951-55 period, the increase ranged from practically nothing for Copper and Aircraft to more than 50% for Cigarettes. Over-all and on a weighted basis, leverage produced approximately a 20% differential between the return on common stock and total capital. In 1955 the composite differential was nearly identical to that for 1951-55.

In a few industries, such as Cigarettes, Rubber, and Chemicals, the amount of and changes in leverage had a significant effect on the earnings rate on common-stock capital. Likewise, in a few instances, it had a marked effect on the relative earnings standing of the industry. For example, in terms of average 1951-55 return on total capital Rubber stood in nineteenth place but in terms of return on common stock it was in eighth position. Similarly, leverage pulled Chemicals from twentieth to twelfth place and Cigarettes from twenty-eighth to twenty-first position.

In contrast, for the most part leverage modified only to a very limited extent the basic earnings pattern of the industries and their relative earnings standing. In other words, the capital structures of most of the industries being examined in this study were sufficiently conservative and similar that in general the effect of the leverage on the earnings levels both absolutely and relatively was limited.

MARKET VALUATION

The highlights of the earnings performance of the thirty-three industries having been reviewed, the next consideration is the market's valuation of the common stock of these industries. Market valuation is considered from three standpoints: earnings-price ratios, dividend yields, and the relationship of market value to book value.

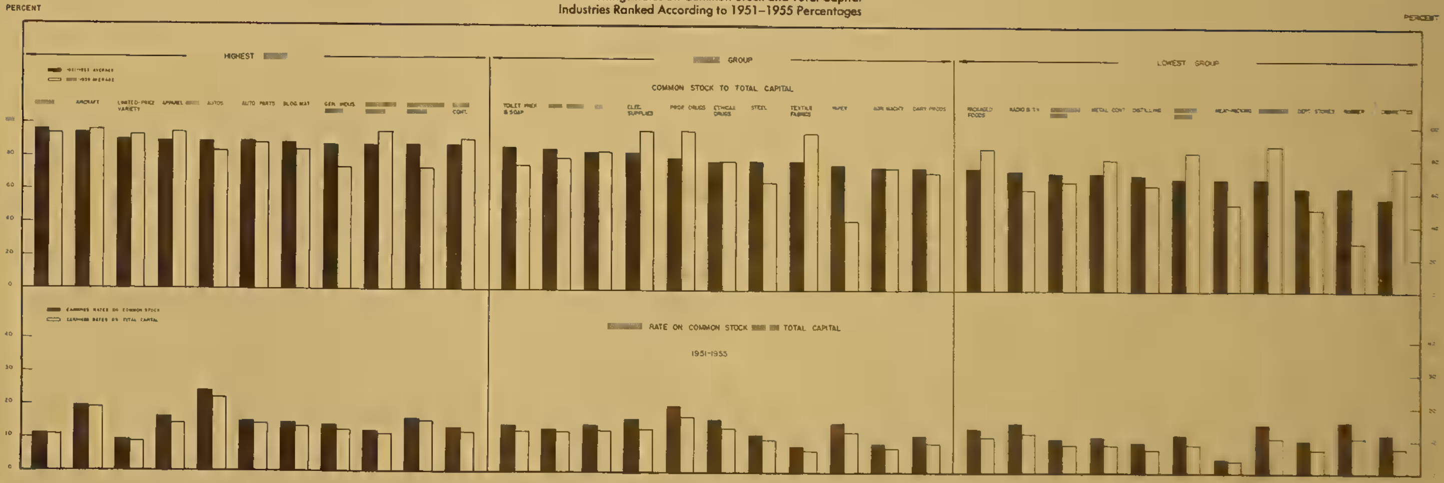
Earnings-Price Ratios (Earnings Yields)

Terminology. The relationship between earnings and price may be looked at as either an earnings-price ratio (earnings divided by price) or a price-earnings ratio (price divided by earnings). The former is referred to usually as the earnings yield and the latter the earnings multiplier. Since each ratio is the reciprocal of the other, a rise in the one is the same thing as a decline in the other and vice versa. Thus, insofar as analytical results are concerned there is no difference in the two. As was pointed out in Chapter 3, earnings-price ratios (earnings yields) are employed herein because they can be compared graphically more effectively with dividend yields. Both the terms "earnings-price ratio" and "earnings yield" are employed interchangeably in the discussion. Preference is given, however, to "earnings yield" because there is less chance for confusion with its obverse, price-earnings ratio.

An Infirmity of Average Earnings Yields. Before taking up an analysis of the compilations, an infirmity of earnings-yields covering a span of years is to be pointed out. Even though average earnings-price ratios for a period of several years are computed from aggregate earnings and market value for the period, the existence of operating losses can result in distortions in the ratios. For example, the low earnings-price ratios for Steel in the 1935-39 period are due to a considerable degree to the operating losses in 1935 and 1938. The Meat Packing, Paper, and Rubber industries, as well as Steel, suffered operating losses in the 1935-39 period. In addition, in the course of the same five-year span Agricultural Machinery, Corn Products, Automobile Parts & Accessories, Textiles, and Copper at some point had extremely low earnings rates on common-stock capital. Quite probably, it is principally for this reason that the average earnings-price ratios for certain industries in the prewar span

Chart 5. COMPARATIVE INDUSTRY PERFORMANCE

Common Stock as Per Cent of Total Capital
And Earnings Rates on Common Stock and Total Capital
Industries Ranked According to 1951–1955 Percentages



are significantly lower than either the 1935–55 or 1951–55 average. To illustrate, if the years involving actual operating losses were excluded from the average 1935–39 earnings-price ratios for the respective industries, the differences would be as follows:

	1935–39 Average Including All Years	1935–39 Average Excluding Years with Operating Losses
Meat Packing	7.1%	15.4%
Paper & Allied Products	5.6	7.2
Steel	2.8	5.4
Rubber	7.3	9.5

The foregoing needs to be borne in mind in connection with any comparison of the prewar and postwar market valuations of industry earnings.

Period Comparison. Let us consider the primary facts developed from an examination of the earnings-price ratio data. First, a marked difference existed between the market valuation of the composite earnings of the thirty-three industries in the prewar and postwar periods. This fact is clearly brought out by Chart 6 and Table 12. The 1935–39 average earnings-price ratio, including the years with operating losses, was 6.3%, or 15.9 times earnings. If the operating losses and the market values for the respective years are excluded, the average rises to 6.6% or 15.2 times earnings. In contrast, the average earnings-price ratio for the 1947–55 span was 11.4% (8.8x); for 1947–50 it was 15.2% (6.6x); for 1951–55, 9.8% (10.2x); and for 1955, 8.6% (11.6x). The average for the entire twenty-one-year span is 10.1% (10x). It is interesting to note that the 1951–55 average is nearly identical to that for the entire span. In contrast the composite earnings-price ratio for 1955 represents a higher valuation for earnings than the 1935–55 average but one still considerably below that for 1935–39.

Table 12. COMPOSITE INDUSTRY PERFORMANCE

Earnings-Price Ratios, Payout Rates, Dividend Yields, and Market Value to Book Value Relationship

1935–1955

Year	Earnings-Price Ratios	Payout Rates	Dividend Yields	Market to Book
1935	5.9%	58%	3.4%	124%
1936	6.5	68	4.4	168
1937	7.4	68	5.0	155
1938	4.6	82	3.8	120
1939	6.8	66	4.5	126
1940	9.5	60	5.8	112
1941	12.5	54	6.8	100
1942	12.5	49	6.1	87
1943	9.8	49	4.8	106
1944	9.4	47	4.4	108
1945	6.3	56	3.6	130
1946	7.8	45	3.5	140
1947	13.2	42	5.5	118
1948	16.4	37	6.1	110
1949	15.0	48	7.2	98
1950	15.9	47	7.5	112
1951	11.4	51	5.8	129
1952	9.9	54	5.4	131
1953	10.8	52	5.7	122
1954	9.2	53	4.9	143
1955	8.6	48	4.2	179
1935–55	10.1	51	5.1	127
1935–39	6.3	68	4.3	138
1947–55	11.4	48	5.5	131
1947–50	15.2	44	6.6	109
1951–55	9.8	51	5.0	143

Range of Data. As is to be expected, a wide range existed in every period between the industry having the lowest earnings-price ratio (highest multiplier) and the industry having the highest earnings-price ratio (lowest multiplier). In 1951–55 (Table 13) the range was from 5.3% (18.8x) for Chemicals to 14.6% (6.8x) for Aircraft. For the twenty-one-year span, the average earnings-price ratios ranged from 5.8% (17.2x) to 16.0% (6.2x) and in 1935–39 from 2.8% (35.7x) to 15.0% (6.7x).

Factors in the Capitalization Rate. In connection with the range of earnings yields, certain earnings and payout data have been examined. As is well known, earnings yields are the product of a welter of appraisals

Chart 6. COMPOSITE INDUSTRY PERFORMANCE

Earnings-Price Ratio
Dividend Yield
Market Value to Book Value of Common Stock
1935–1955

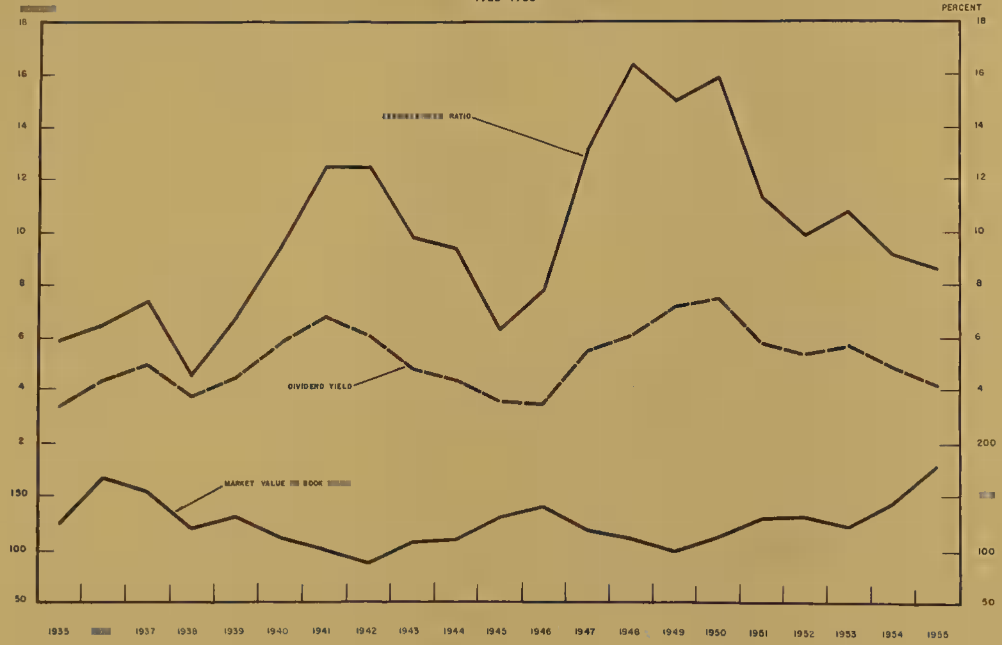


Table 13. COMPARATIVE INDUSTRY PERFORMANCE

Earnings-Price Ratios for Selected Periods
Industries Ranked According to 1951–55 Average

Industry	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Chemicals	5.3%	8.7%	6.2%	5.8%	4.4%	5.1%
Ethical Drugs	5.7	8.2	6.6	6.3	5.0	6.0
Apparel & Accessories Chain Stores	6.6	11.1	8.2	8.2	8.3	6.3
Electrical Supplies & Equipment	6.9	12.8	8.4	7.1	4.1	4.3
Toilet Preparations & Soap	6.9	11.6	8.5	7.8	6.0	6.4
Limited-Price Variety Stores	7.1	9.5	8.1	7.7	6.8	8.2
Dairy Products	7.2	11.9	8.7	9.2	7.7	7.0
Corn Products	7.4	9.2	8.1	6.6	4.2	8.5
Glass Containers	7.6	9.1	8.2	7.2	5.3	7.7
Metal Containers	7.9	11.2	9.0	7.2	5.3	7.4
Proprietary Drugs	7.9	8.9	8.3	8.1	8.2	7.2
Grain Mill Products	8.2	10.6	9.0	8.8	7.8	7.9
Mail-Order Houses	8.2	14.1	10.2	9.5	7.9	6.4
Meat Packing	8.3	15.1	11.1	11.4	7.1	8.1
Packaged Foods	8.4	9.8	8.9	8.0	6.7	7.7
Grocery Chain Stores	8.5	14.8	10.5	10.2	8.7	8.2
Cigarettes	8.9	9.6	9.2	7.5	5.7	10.3
Paper & Allied Products	9.5	22.8	12.2	12.0	5.6	7.0
Department Stores	9.7	15.9	11.9	11.4	5.6	9.3
Nonferrous Metals	10.0	11.9	10.6	8.5	5.6	9.2
Textile Fabrics	10.0	25.3	15.9	15.6	6.5	10.7
Building Materials	10.2	14.4	11.5	9.6	4.0	8.7
Radio & Television	10.2	22.1	13.0	12.2	9.9	8.1
Automobiles	10.7	18.7	12.9	11.0	8.7	10.3
Distilling	10.7	23.9	15.4	15.7	15.0	8.3
General Industrial Machinery	10.7	16.6	12.6	10.9	5.6	8.1
Copper	10.7	15.0	12.2	10.7	6.2	11.4
Oil	10.9	16.2	12.3	11.2	7.0	8.9
Agricultural Machinery	11.2	18.1	13.6	11.7	8.0	9.3
Automobile Parts & Accessories	12.5	19.4	14.7	13.7	8.7	11.9
Rubber	13.0	25.8	15.6	16.0	7.3	9.3
Steel	14.2	21.7	16.3	13.3	2.8	13.0
Aircraft	14.6	7.0	13.0	14.9	4.3	11.6
Composite	9.8	15.2	11.4	10.1	6.3	8.6

of complex and changing factors—both tangible and intangible—by a multitude of investors with different objectives, abilities, experiences, temperaments, and opinions. Under such circumstances, it is clearly impossible to isolate and establish the precise effect of any single factor on the capitalization rate for the earnings of a given company or industry over any selected period of time. Nevertheless, if analytical examination has merit, it must be assumed that the tangible, and for the most part measurable, factors are the long-run determinants of capitalization rates. In this connection, it is usually held that such factors as the level of earnings, the growth in earnings, the stability of earnings, and the payout rate are primary considerations.

The correlations between the earnings yield for the thirty-three industries over the twenty-one year span and the level of stability of earnings rates on common-stock capital and the payout rates have been briefly examined. The limitations of the current research project do not make possible further exploration of this most important matter at this time. It is to be stressed that present findings are to be treated as preliminary and subject to further tests and examination. Nevertheless, we consider them to merit review.

Earnings Yield and Level of Earnings. As indicated, three relationships have been examined. The first was the relationship of the level of earnings—the average earnings rate on common stock capital—and the average earnings yield for each of the thirty-three industries over the 1935–55 span. It is to be seen from the scatter diagram (Chart 7) that an extremely low correlation exists. Therefore, insofar as these data are concerned, it is indicated that the average level of earnings rates alone is not significant in the market's appraisal of earnings.

A word of caution is in order at this point. It is to be emphasized that the foregoing deals solely with *average* earnings rates and *average* earnings-price ratios over an extended period. It is not to be concluded that the same applies to the short-run. Experience establishes, and the fact is cited later in this chapter, that precipitate short-run changes in earnings may be accompanied by violent changes in earnings-price ratios.

Earnings Yield and Stability of Earnings. The second relationship examined was the stability of earnings and earnings-price ratios. The stability of the earnings rates of each of the thirty-three industries over the 1935–55 period has been measured by two coefficients of dispersion: (1) the standard deviation of the annual earnings rates over the 1935–55 period divided by the mean of these earnings rates (the coefficient of variation), and (2) the standard deviation of the annual earnings rates about the fitted trend of annual earnings rates 1935–55 (standard error of estimate) divided by the mean of these earnings rates. When these two measures of stability are compared to the average earnings-price ratios of the thirty-three industries, the coefficients of correlation were identical and stood at the rather high figure of 0.76. Chart 8 is a scatter diagram of the relationship of the second measure of stability and earnings-price ratios. Two regression lines are shown. The less steeply sloped is for all thirty-three industries and the other is for the thirty industries whose coefficients of dispersion were less than 0.50, i.e., three industries with extreme fluctuations were eliminated. The three industries excluded are Aircraft, Meat Packing, and Textile Fabrics. The coefficient of correlation between the earnings-price ratios and coefficients of dispersion of the thirty industries was 0.90 as contrasted to the 0.76 of the thirty-three. This suggests that increased instability beyond some point has a declining influence on the earnings-price ratios.

Based on the foregoing, stability of earnings is a much more important determinant of earnings-price ratios than is the level of earnings.

Earnings Yield and Payout Rate. The third relationship examined was that between the average payout rates and the average earnings-price ratios of the thirty-three industries over the twenty-one year span from 1935 to 1955. Chart 9 is a scatter diagram of the two series with the fitted regression line shown. It is striking that the coefficient of correlation—(0.76)—was of the same magnitude as that for stability.

In view of the significant correlation for both earnings stability and payout rates with earnings-price ratios, the next logical step was to determine the coefficient of multiple correlation between earnings-price ratios and a combination of coefficients of dispersion and payout rates. The result was a coefficient of correlation of 0.84. The coefficients of partial correlation for both stability and payout rate were 0.65 and –0.65, respectively.

These analyses of earnings-price ratios indicate that, insofar as these data are concerned and for the period covered, stability of earnings and the payout rate were equally significant in determining the earnings-price ratio and that combined they explained about 70% of the differences among these industries' average earnings-price ratios for the 1935–55 span. Whether comparable results would be obtained from an analysis of the data either for other periods or for other industries must, for the present, rest with conjecture.

Cluster. Let us now turn to another broad standpoint from which earnings-price ratios may be considered: the extent that they tend to cluster. Examination of the data in Table 13 shows that, although in 1951–55 the earnings-price ratios ranged from 5.3% to 14.6%—a spread of more than nine percentage points—nineteen of the industries were clustered within a spread of only slightly over three percentage points (from 7.5% to 10.8%). The same type of clustering occurs in 1947–55 (8.5% to 12.8%) and in 1935–39 (5.5% to 7.9%).

Relation of Industry Earnings Yields to Composite Experience. There has been a marked change in the earnings-price ratios for a few individual industries in relation to the composite experience of the thirty-three industries. This fact may be seen from both Chart 10 and Table 14. In the upper field of the graph the annual earnings-price ratios and the 1935–55 average of each industry are charted. In the lower field the per cent which the annual earnings-price ratios of each industry was of the composite for all of the industries is shown. Table 14 sets forth the per cents which the earnings-price ratios of the individual industries were in each indicated period of the respective composite. Because earnings yields are being used, if an industry's earnings-price ratio is less than 100% of the composite, its earnings are being valued more highly than those of the composite. If the industry's earnings-price ratio is above 100%, then the reverse is true. For example, in 1951–55 Chemicals' earnings-price ratio was 54% of the composite; therefore, its earnings were being valued at nearly twice those of the composite.

Taking as a measure of change the relative position of each industry with respect to the composite in 1951–55 and in 1935–55 and arbitrarily assuming that a difference of ten percentage points between the two

Chart 7. THIRTY-THREE INDUSTRIES

Earnings-Price Ratios and Earnings Rates on Common Stock Capital
1935–1955 Averages

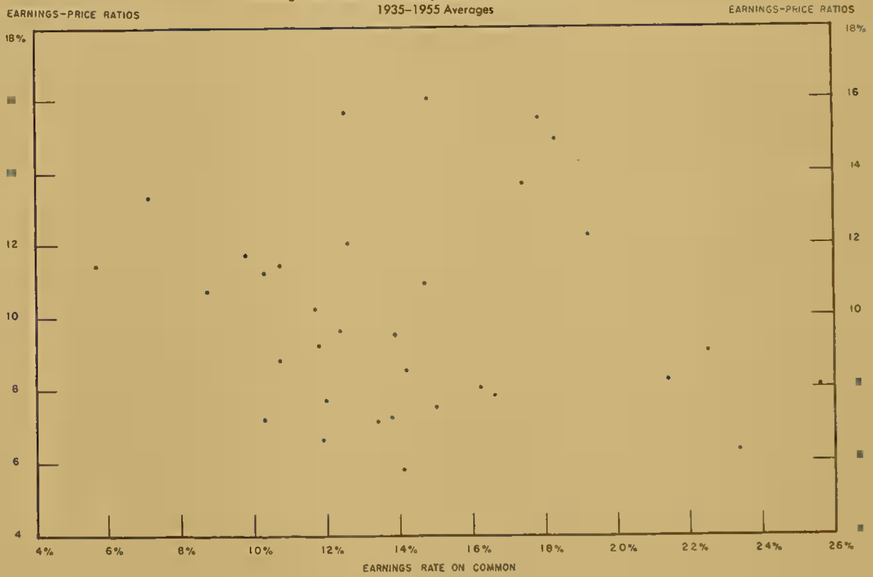


Chart 8. THIRTY-THREE INDUSTRIES

Relationship of Average Earnings-Price Ratios
And Coefficients of Dispersion of Earnings Rates [redacted] Common Stock Capital
1935–1955

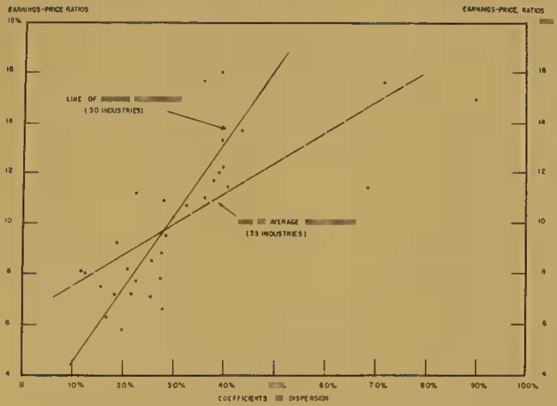


Chart 9. THIRTY-THREE INDUSTRIES

Relationship of Earnings-Price Ratios and Payout Rates
1935–1955 Averages

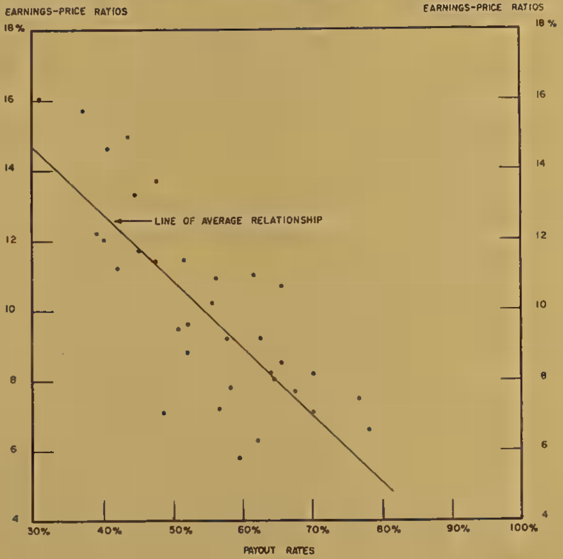
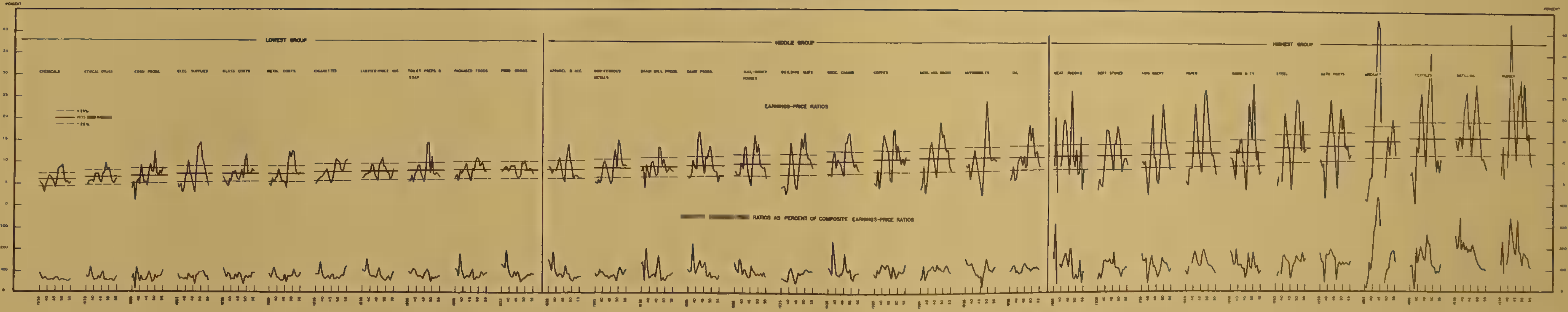


Chart 10. COMPARATIVE INDUSTRY [redacted]

Earnings-Price Ratios
Industries Ranked According to 1935–1955 Average
And Industry Ratios as Percentages of Composite
1935–1955



periods represents a significant change, let us determine those industries which have either gained or lost ground in terms of the composite experience ("the market").

There were eleven industries which had a significant increase in the valuation of their earnings in relation to the market—i.e., their earnings-price ratios declined in relation to the composite.

	Percentage Points Change	Relation to Market 1951–55	Relation to Market 1935–55
Textile Fabrics	52.5%	102.0%	154.5%
Distilling	46.2	109.2	155.4
Meat Packing	28.2	84.7	112.9
Rubber	25.7	132.7	158.4
Paper & Allied Products	21.9	96.9	118.8
Dairy Products	17.7	73.4	91.1
Radio & Television	16.7	104.1	120.8
Grocery Chain Stores	14.3	86.7	101.0
Department Stores	13.9	99.0	112.9
Apparel & Accessories Chain Stores	13.9	67.3	81.2
Mail-Order Houses	10.4	83.7	94.1

In contrast, there were only four industries which had a significant decline in the valuation of their earnings in relation to the composite.

	Percentage Points Change	Relation to Market 1951–55	Relation to Market 1935–55
Nonferrous Metals	17.8%	102.0%	84.2%
Cigarettes	16.5	90.8	74.3
Steel	13.2	144.9	131.7
Corn Products	10.2	75.5	65.3

It is to be pointed out that in the case of Steel losses were suffered in the 1935–39 period and the 1935–55 average is pulled down as a result of this.

Changes in the capitalization rate for each industry may also be examined in terms of changes in their prewar (1935–39) and postwar (1951–55) levels as related to changes in the composite for the two periods.

It will be recalled that the composite earnings yield for the thirty-three industries rose from 6.3% to 9.8%, or by nearly 56% (Table 13). In Table 15 the comparative increase or decrease between the 1935–39 and the 1951–55 earnings yield of each of the individual industries is

Table 14. COMPARATIVE INDUSTRY PERFORMANCE

Earnings-Price Ratios for Each Industry as Per cent of Composite
Industries Ranked According to 1951–55 Average
Selected Periods

Industry	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Chemicals	54.1%	57.2%	54.4%	57.4%	69.8%	59.3%
Ethical Drugs	58.2	53.9	57.9	62.4	79.4	69.8
Apparel & Accessories Chain Stores	67.3	73.0	71.9	81.2	131.7	73.3
Electrical Supplies & Equipment	70.4	84.2	73.7	70.3	65.1	50.0
Toilet Preparations & Soap	70.4	76.3	74.6	77.2	95.2	74.4
Limited-Price Variety Stores	72.4	62.5	71.1	76.2	107.9	95.3
Dairy Products	73.4	78.3	76.3	91.1	122.2	81.4
Corn Products	75.5	60.5	71.1	65.3	66.7	98.8
Glass Containers	77.6	59.9	72.0	71.3	84.1	89.5
Metal Containers	80.6	73.7	78.9	71.3	84.1	86.0
Proprietary Drugs	80.6	58.6	72.8	80.2	130.2	83.7
Grain Mill Products	83.7	69.7	78.9	87.1	123.8	91.9
Mail-Order Houses	83.7	92.8	89.5	94.1	125.4	74.4
Meat Packing	84.7	99.3	97.4	112.9	112.7	94.2
Packaged Foods	85.7	64.5	78.1	79.2	106.3	89.5
Grocery Chain Stores	86.7	97.4	92.1	101.0	138.1	95.3
Cigarettes	90.8	63.2	80.7	74.3	90.5	119.8
Paper & Allied Products	96.9	150.0	107.0	118.8	88.9	81.4
Department Stores	99.0	104.6	104.4	112.9	88.9	108.1
Nonferrous Metals	102.0	78.3	93.0	84.2	88.9	107.0
Textile Fabrics	102.0	166.4	139.5	154.5	103.2	124.4
Building Materials	104.1	94.7	100.9	95.1	63.5	101.2
Radio & Television	104.1	145.4	114.0	120.8	157.1	94.2
Automobiles	109.2	123.0	113.2	108.9	138.1	119.8
Distilling	109.2	157.2	135.1	155.4	238.1	96.5
General Industrial Machinery	109.2	109.2	110.5	107.9	88.9	94.2
Copper	109.2	98.7	107.0	105.9	98.4	132.6
Oil	111.2	106.6	107.9	110.9	111.1	103.5
Agricultural Machinery	114.3	119.1	119.3	115.8	127.0	108.1
Automobile Parts & Accessories	127.6	127.6	128.9	135.6	138.1	138.4
Rubber	132.7	169.7	136.8	158.4	115.9	108.1
Steel	144.9	142.8	143.0	131.7	44.4	151.2
Aircraft	149.0	46.1	114.0	147.5	68.3	134.9

set forth in terms of the composite increase. For example, the 1951–55 earnings yield for the Distilling Industry in relation to the 1935–39 level was 54% below the composite experience, whereas that for Steel was 226% above. In other words, on the basis of its 1935–39 and 1951–55 relationships to the earnings yields for the market, the earnings yield for Distilling declined (multiplier rose), but the reverse was true for Steel.

The second column of figures gives the relative changes in the earnings rate on common-stock capital computed on the same basis. It is interesting to note that out of the twenty industries which on the basis of this period comparison gained in terms of the market there were only two—Glass Containers and Textile Fabrics—which enjoyed an increase in the earnings rate on their common stock equivalent to that of the composite. Furthermore, if Table 11 (page 33) is referred to, it will be seen that in 1951–55 twelve of the twenty industries suffered actual declines in terms of their own 1935–39 earnings rates on common stock. To illustrate, the Distilling Industry's earnings yield for 1951–55 was lower than for 1935–39 but, at the same time, the return on its common-stock capital had declined substantially—having fallen from nearly 20% in 1935–39 to 9% in 1951–55.

In contrast, seven of the thirteen industries which had increases in earnings-price ratios greater than the composite also had greater increases in the earnings rates on their common stock than the composite. Furthermore, all of the thirteen industries except Cigarettes had higher earnings rates on their common stock in 1951–55 than in 1935–39. For example, Steel, which in terms of capitalization rate stands at the bottom of the list, had a marked rise in its earnings-price ratio, but on the other hand, it enjoyed the greatest increase in earnings rate on common stock (from 1.5% in 1935–39 to 11.3 in 1951–55).

It is to be stressed, therefore, that in judging the market performance of an industry ■ against that of a composite, changes in the earnings performance of both the industry and the composite must be given careful consideration. It is well known that ordinarily when earnings are abnormally high the earnings yield is also high (multiplier low) and

Table 15. COMPARATIVE INDUSTRY PERFORMANCE

Changes in Industry Earnings-Price Ratios and Earnings Rate on Common Stock
In Relation to Changes in Composite
1935–1939 to 1951–1955

Industry	Change in Earnings-Price Ratios in Relation to Composite	Change in Earnings Rate on Common in Relation to Composite
Distilling	– 54.2%	– 70.6%
Apparel & Accessories Chain Stores	– 48.9	– 59.0
Dairy Products	– 39.9	– 18.3
Proprietary Drugs	– 38.1	– 60.7
Grocery Chain Stores	– 37.2	– 19.0
Radio & Television	– 33.8	– 53.3
Mail-Order Houses	– 33.3	– 38.7
Limited-Price Variety Stores	– 32.9	– 54.9
Grain Mill Products	– 32.4	– 27.8
Ethical Drugs	– 26.7	– 66.0
Toilet Preparations & Soap	– 26.1	– 42.8
Meat Packing	– 24.8	– 16.2
Chemicals	– 22.5	– 19.8
Automobiles	– 20.9	– 36.3
Packaged Foods	– 19.4	– 60.3
Agricultural Machinery	– 10.0	– 38.6
Glass Containers	– 7.8	■
Automobile Parts & Accessories	– 7.6	– 38.0
Metal Containers	– 4.1	– 40.5
Textile Fabrics	– 1.1	+ 12.8
Oil	+ .1	+ 38.5
Cigarettes	+ .4	– 56.9
Electrical Supplies & Equipment	+ 8.2	– 7.7
Paper & Allied Products	+ 9.0	+199.3
Copper	+ 11.0	+ 34.0
Department Stores	+ 11.3	+ 21.0
Corn Products	+ 13.3	– 3.5
Rubber	+ 14.5	+ 24.9
Nonferrous Metals	+ 14.8	– 35.5
General Industrial Machinery	+ 22.9	– 51.2
Building Materials	+ 63.9	+ 17.5
Aircraft	+118.3	– 4.8
Steel	+226.0	+373.5

when earnings are abnormally low the earnings yield is also low (multiplier high). The experience of the Distilling and Steel industries is illustrative. In retrospect, the 1935–39 level of earnings for Distilling (nearly 20%) appears to be abnormally good and the 1935–39 level for Steel (less than 2%) appears to be abnormally low. Lengthy debates could be waged over whether the shares of the respective industries were over- or under-priced in one period or another, but it cannot be disputed that substantial changes have occurred in the capitalization rates.

Stability of Earnings Yields. If fluctuations in the market's valuations of earnings are judged in terms of the coefficients of variation of the earnings-price ratios of each industry over the 1935–55 period, the following ten industries (which are listed in the order of their stability) had the smallest fluctuations in the valuation of their earnings:

Proprietary Drugs
Packaged Foods
Limited-Price Variety Stores
Apparel & Accessories Chain Stores
Ethical Drugs
Glass Containers
Grain Mill Products
Cigarettes
Dairy Products
Grocery Chain Stores

Putting aside the Aircraft Industry because of the noneconomic factors operative in the industry, the following ten industries (which are listed in the order of instability) had the widest fluctuations in the market's valuation of their earnings:

Textile Fabrics
Rubber
Meat Packing
Paper & Allied Products
Building Materials
Electrical Supplies & Equipment
Steel
Radio & Television
Automobiles
Agricultural Machinery

Those industries which had marked changes in their earnings-price ratios also for the most part had greater fluctuations in their earnings than did the first group of industries. In some instances this demonstrates the previously cited fact that, assuming the absence of a downward secular trend, when earnings are unusually low the market tends to anticipate a recovery and thus the prevailing earnings-yield is low (the valuation on the basis of current earnings is high) and, contrariwise, when earnings are unusually high the market tends to anticipate a decline and thus the earnings-yield is high (the valuation on the basis of current earnings is low).

Growth in Stock Prices. Along with earnings yields, let us consider the growth in stock prices. Table 16 sets forth price growth over three selected periods: from 1935–39 to 1951–55, from 1947–50 to 1951–55, and from 1947–50 to 1955. Fundamentally, a long-run price rise is the product of any one or a combination of three factors: *(a)* increased earnings, *(b)* increased dividends, and *(c)* increased capitalization rate (a lower earnings yield or a higher multiplier). Thus, through ascertaining the changes which have occurred in these factors, the reason for the price rise may be determined. For example, if there was a substantial increase in the price of a stock without a change in the capitalization rate, then the increase must be due to higher per-share earnings and very probably, in turn, higher per-share dividends. Contrariwise, a price rise occurring without a change in earnings or dividends, of course, would be attributable entirely to an increase in the capitalization rate.

The price changes over the selected periods are analyzed from the foregoing bases. Since earnings and dividend data have not been developed on a per-share basis, the reasons for the price changes are approached from a capitalization standpoint. However, to provide some earnings and dividend information, the rate of return on common stock capital and the payout rate are included in the table.

Compare first the price level in 1951–55 with that in 1935–39. An unweighted average of the growth in prices for the thirty-three industries is nearly 177%. (Since it was necessary to employ price indexes, the computation of a weighted average is not practical). Only the Cigarette

Table 16. COMPARATIVE INDUSTRY PERFORMANCE

Growth in Stock Prices
Industries Ranked According to Percentage Rise in Prices
Selected Periods 1935–1955

Percentage Change from 1935-39 to 1951-55				
Industry	Stock Prices	Earnings Yield	Payout Rate	Return on Common Capital
Radio & Television	+677.9	+3.0	-31.4	-25.7
Paper & Allied Products	+589.5	+69.6	+8.4	+217.0
Rubber	+506.3	+78.1	-3.4	+98.7
Distilling	+335.8	-28.7	+48.8	-53.3
Textile Fabrics	+334.7	+53.8	-28.2	+79.5
Oil	+254.6	+55.7	-22.4	+120.3
Automobile Parts & Accessories	+231.7	+43.7	-14.3	-1.3
Dairy Products	+217.6	-6.5	-22.0	+29.9
Mail-Order Houses	+209.6	+3.8	-18.8	-2.4
Aircraft	+204.9	+239.5	-17.9	+51.5
Grocery Chain Stores	+190.8	-2.3	-21.5	+28.9
Automobile	+190.7	+23.0	-21.3	+1.3
Chemical	+183.7	+20.5	-14.1	+27.6
Apparel & Accessories Chain Stores	+169.9	-20.5	-5.2	-34.8
Steel	+169.4	+407.1	-18.8	+653.3
Department Stores	+149.5	+73.2	-14.0	+92.5
Grain Mill Products	+145.3	+5.1	-20.4	+14.8
Toilet Preparations [redacted] Soap	+138.6	+15.0	-13.9	-9.0
Electrical Supplies & Equipment	+130.2	+68.3	-28.5	+48.5
Building Materials	+119.9	+155.0	-29.9	+87.0
Ethical Drugs	+117.3	+14.0	-23.1	-44.9
General Industrial Machinery	+99.8	+91.1	-25.8	+22.3
Copper	+98.5	+72.6	+9.1	+113.2
Meat Packing	+86.5	+16.9	-23.3	+33.3
Proprietary Drugs	+73.9	-3.7	-14.7	-37.5
Agricultural Machinery	+69.4	+40.0	+36.8	-2.3
Glass Containers	+45.4	+43.4	-17.4	0
Corn Products	+24.2	+76.2	-40.6	+53.6
Limited-Price Variety Stores	+22.2	+4.4	+4.5	-28.2
Packaged Foods	+21.0	+25.4	-35.0	-33.8
Metal Containers	+20.6	+49.1	-35.2	-5.3
Nonferrous Metals	+19.3	+78.6	-11.3	+2.6
Cigarettes	-20.2	+56.1	-31.7	-31.4

Percentage Change from [redacted] [redacted] 1951-55				
Industry	Stock Prices	Earnings Yield	Payout Rate	Return on Common Capital
Rubber	+203.5	-49.6	+5.2	-2.5
Aircraft	+173.2	+108.6	-63.8	+358.1
Paper [redacted] Allied Products	+157.9	-58.3	+44.7	-28.0
Radio & Television	+129.4	-53.8	+61.4	-50.0
Electrical Supplies & Equipment	+127.2	-46.1	+35.2	-19.0
Oil	+114.4	-32.7	+22.6	-2.1
Automobile	+109.7	-42.8	+9.1	-26.1
Steel	+94.5	-34.6	+17.3	-2.6
Chemical	+89.1	-39.1	+17.7	-23.7
Automobile Parts [redacted] Accessories	+69.1	-35.6	+15.1	-27.8
Nonferrous Metals	+65.5	-16.0	-3.0	+2.6
General Industrial Machinery	+63.0	-35.5	+25.5	-25.1
Dairy Products	+62.8	-39.5	+27.0	-20.4
Grocery Chain Stores	+59.6	-42.6	+46.2	-28.8
Building Materials	+58.7	-29.2	+23.1	-21.3
Mail-Order Houses	+58.1	-41.8	+32.8	-35.9
Copper	+58.0	-28.7	+17.5	-3.4
Metal Containers	+57.6	-29.5	+31.1	-14.4
Toilet Preparations & Soap	+54.1	-40.5	+11.8	-34.4
Apparel [redacted] Accessories Chain Stores	+45.9	-40.5	+30.6	-34.6
Distilling	+43.7	-55.2	+92.9	-56.6
Ethical Drugs	+38.1	-30.5	+21.7	-33.7
Packaged Foods	+37.2	-14.3	+1.4	-10.1
Department Stores	+34.9	-39.0	+32.3	-33.3
Proprietary Drugs	+31.7	-11.2	-0.8	-6.5
Agricultural Machinery	+31.1	-38.1	+42.6	-36.5
Glass Containers	+29.7	-16.5	+13.6	-14.7
Grain Mill Products	+23.8	-22.6	+14.1	-23.5
Corn Products	+21.2	-19.6	+11.5	-22.3
Textile Fabrics	+15.8	-60.5	+69.5	-64.9
Meat Packing	+13.3	-45.0	+31.6	-42.1
Limited-Price Variety Stores	-.5	-25.3	+25.5	-36.5
Cigarettes	-3.2	-7.3	+20.2	-29.0

Percentage Change from 1947-50 to [redacted]				
[redacted]try	Stock Prices	Earnings Yield	Payout Rate	Return on Common Capital
Aircraft	+435.5	+65.7	+62.1	+465.1
Rubber	+403.7	-64.0	+7.7	-3.8
Paper [redacted] Allied Products	+326.5	-69.3	+48.1	-25.6
Automobile	+241.7	-44.9	-8.4	-7.7
Steel	+223.3	-40.1	+3.5	+30.2
Oil	+209.2	-45.1	+22.0	-4.2
Radio [redacted] Television	+178.6	-63.4	+77.8	-58.7
Chemical	+150.2	-41.4	+4.9	-13.4
Nonferrous Metals	+142.3	-22.7	-6.1	+20.5
Building Materials	+139.8	-39.6	+9.3	-9.8
Ethical Drugs	+133.5	-26.8	+13.8	-34.6
General Industrial Machinery	+131.6	-51.2	+32.6	-27.9
Automobile Parts & Accessories	+131.3	-38.7	+5.3	-17.7
Mail-Order Houses	+127.4	-54.6	+31.8	-35.9
Copper	+113.9	-24.0	+0.7	+29.9
Electrical Supplies & Equipment	+109.2	-40.6	+65.7	-24.3
Dairy Products	+98.3	-41.2	+14.3	-13.4
Metal Containers	+97.9	-33.9	+33.4	-8.0
Toilet Preparations & Soap	+97.4	-44.8	+12.8	-30.7
Packaged Foods	+90.2	-21.4	-7.4	+2.0
Grocery Chains	+88.2	-44.6	+32.4	-27.0
Proprietary Drugs	+87.9	-19.1	-6.1	+10.7
Apparel & Accessories Chain Stores	+74.7	-43.2	+24.0	-32.1
Department Stores	+67.2	-41.5	+14.3	-25.5
Glass Containers	+66.4	-15.4	-9.5	+1.3
Distilling	+65.1	-65.3	+101.1	-64.6
Agricultural Machinery	+47.1	-48.6	+47.3	-42.3
Grain Mill Products	+44.8	-25.5	+15.4	-19.7
Corn Products	+37.4	-7.6	-2.3	-8.4
Meat Packing	+36.9	-46.4	+7.7	-32.9
Textile Fabrics	+20.7	-57.7	+29.6	-60.0
Cigarettes	+7.6	+7.3	-2.4	-16.0
Limited-Price Variety Stores	+1.0	-13.7	+4.9	-28.4

Industry suffered a price decline. All others had increases ranging from 19% for Nonferrous Metals to 678% for Radio & Television. What is the explanation for the increase? Over this span of time there can be no doubt. Only five of the industries had a higher payout rate—the unweighted average shows an over-all decline of 15%—and only five had lower average earnings yields (higher multipliers) in 1951–55 than in 1935–39. Furthermore, only two of these latter five—Distilling and Apparel & Accessories Chain Stores—had significantly lower earnings yields. Thus over-all the earnings yield was substantially higher (lower multiplier) in 1951–55 than in 1935–39. In fact, by using a rough check method, it is estimated that if the other two factors had remained constant the average change in the capitalization rate would have resulted in a decline of nearly 25% in stock prices between the two periods. Clearly, therefore, the over-all growth in prices is attributable to an increase in earnings and, since the payout rate declined, to a smaller increase in dividends. The increase in earnings in every case is due to a growth in assets behind the common stock (an increase in book value) and for seventeen industries (see column captioned "Return on Common Capital") also to an increase in the earnings rate on common stock.

In contrast to the foregoing situation, the growth in stock prices from 1947–50 to 1951–55 is due much more to an increase in the capitalization rate—which was undoubtedly influenced by an increase in the payout rate and thus dividends—than to an increase in earnings. This fact may be readily established. An unweighted average of the stock price increases for the thirty-three industries shows a rise of approximately 66%. Using, again, the rough check method, it is estimated that the average decline in earnings yield for all of the industries should have increased stock prices by about 57%. From these figures, it is to be concluded that increased earnings played a limited role in the price rise. Moreover, it is to be noted that the earnings rate on common stock capital declined in all industries except Aircraft and Nonferrous Metals. Contrary to the 1951–55 and 1935–39 relationship, the payout rate increased for all industries except Aircraft, Nonferrous Metals, and Proprietary Drugs. The unweighted average of payout rates shows an over-all increase of nearly 24%.

If the same three factors are compared for 1955 and 1947–50, it will be seen that the major portion of the price rise is due again to an increase in the capitalization rate. Note that the earnings yield declined (multiplier rose) for thirty-one industries. The two exceptions were Aircraft and Cigarettes. Using once again the rough measure of the over-all effect of the change in the capitalization rate, if there had been no change in earnings, prices should have risen about 74%. They actually rose 128%. In this instance, as in 1951–55, there was an increase in the payout rate which quite probably was a factor in the higher capitalization rate. In 1955 the payout rates of twenty-five industries were higher than in 1947–50; the over-all average increase was nearly 15%. Only seven industries had higher earnings rates on common stock capital in 1955 than in 1947–50. Insofar as 1955 is concerned, it may be concluded that, although a higher capitalization rate was the predominant factor, increased earnings and dividends also had a role.

It is interesting to note that the following six industries were among the ten showing the most price growth in each period:

Radio & Television
Paper & Allied Products
Rubber
Oil
Automobile Parts & Accessories
Aircraft

In contrast, the following six industries were among the ten with the least growth in each period:

Cigarettes
Limited-Price Variety Stores
Corn Products
Glass Containers
Agricultural Machinery
Meat Packing

Level of Earnings Yield and Stability. There is one final point to be made in regard to earnings-price ratios. There is a tendency for the capitalization rate to become less stable as the earnings yield rises. This broad tendency may be observed from Chart 10. It is also indicated by computing the coefficient of variation for the earnings-price ratios and then ranking the industries according to their stability. While *no concise* relationship can be pointed to, it is interesting to note that eight of the eleven industries in the highest group of earnings yields were among the eleven industries having the greatest instability in their earnings-price ratios.

Dividend Yields

An examination of dividend yields over the selected periods reveals some interesting facts. First, note from Table 17 that the composite yield for all industries over the 1947–50 period (6.6%) was substantially above that for the full span from 1935 to 1955 (5.1%), whereas the 1951–55 average (5.0%) was nearly identical to the 1935–55 yield, and the 1955 figure (4.2%) was considerably below all three of them. It is further to be pointed out that 1955's 4.2% was below the yields for sixteen of the years and above the yields for only the following four years:

1935	3.4%
1938	3.8%
1945	3.6%
1946	3.5%

Range of Data. A wide range exists between the lowest and highest yielding industry for any period. As indicated by the ranking in Table 17, the 1951–55 average yield for Chemicals was 3.2% whereas the yield for Copper was 7.5%. Between these two extremes there was no particular bunching, the yields gradually rising from the 3.2% low. In no period was there any pronounced cluster.

In terms of the average levels for the thirty-three industries over the entire span from 1935 to 1955, dividend yields displayed much less divergence among industries than earnings-price ratios. The range for dividend yields was from 3.5% for Chemicals to 7.0% for Copper whereas the range for earnings-price ratios was from 5.8% for Chemicals to 19.3% for Rubber. Furthermore, twenty-five of the thirty-three industries had average dividend yields within a two-percentage-point range (4% to 6%) whereas only eight of the thirty-three had earnings-price ratios within any two-percentage-point range (7% to 9%).

Period Comparison. In relation to their 1935–39 averages, only twelve industries had lower 1951–55 dividend yields; twenty industries

Table 17. COMPARATIVE INDUSTRY PERFORMANCE

Dividend Yields for Selected Periods
Industries Ranked According to 1951–1955 Average

Industry	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Chemicals	3.2%	4.5%	3.5%	3.5%	3.1%	2.8%
Ethical Drugs	3.6	4.3	3.8	3.9	4.1	3.6
Toilet Preparations & Soap	4.0	6.0	4.7	4.5	4.0	3.7
Metal Containers	4.1	4.4	4.2	4.1	4.2	3.9
Electrical Supplies & Equipment	4.2	5.7	4.5	4.3	3.5	3.2
Grain Mill Products	4.3	4.9	4.5	4.6	5.2	4.2
Mail-Order Houses	4.4	5.7	4.8	4.8	5.2	3.4
Paper & Allied Products	4.4	7.3	5.0	4.8	2.4	3.3
Radio & Television	4.5	6.1	4.9	4.8	6.4	3.9
Rubber	4.5	8.4	5.2	5.0	2.6	3.2
Oil	4.6	5.6	4.9	4.7	3.8	3.7
Meat Packing	4.7	5.0	5.5	5.2	5.2	3.8
Dairy Products	4.7	6.1	5.2	5.3	6.4	4.1
Apparel & Accessories Chain Stores	4.7	6.0	5.2	5.4	6.2	4.2
Glass Containers	4.8	5.0	4.8	4.5	4.0	3.9
Packaged Foods	4.9	5.6	5.1	5.1	6.0	4.1
Proprietary Drugs	5.0	5.7	5.2	5.2	6.0	4.3
Grocery Chain Stores	5.0	6.0	5.4	5.7	6.6	4.4
Corn Products	5.1	5.7	5.3	5.1	4.9	5.1
Limited-Price Variety Stores	5.3	5.6	5.4	5.2	4.8	5.1
Textile Fabrics	5.6	8.4	6.7	6.3	5.1	4.6
Building Materials	5.7	6.6	6.0	5.0	3.2	4.3
Distilling	5.8	6.8	6.2	5.8	5.5	4.7
Nonferrous Metals	5.9	7.2	6.4	5.6	3.7	5.2
Department Stores	6.0	7.4	6.5	5.9	4.0	5.0
Agricultural Machinery	6.1	6.9	6.4	5.3	3.2	5.2
Automobile Parts & Accessories	6.2	8.4	6.9	6.5	5.0	5.4
General Industrial Machinery	6.2	7.7	6.7	6.1	4.4	5.0
Cigarettes	6.2	5.5	5.9	5.7	5.8	5.8
Aircraft	6.2	8.2	6.6	6.5	2.2	5.1
Automobiles	6.3	10.0	7.3	6.8	6.5	5.1
Steel	6.4	8.1	6.9	5.9	1.6	5.0
Copper	7.5	7.8	8.0	7.0	3.9	6.8
Composite	5.0	6.6	5.5	5.1	4.3	4.2

had higher yields; and one—Toilet Preparations & Soap—had the same. In Table 18, the industries are ranked according to the extent of their improvement in 1951–55 over 1935–39. It is interesting to note the extremely wide differences in the industries' experiences. Whereas Radio & Television's 1951–55 dividend yield was approximately 30% lower than in 1935–39, the 1951–55 average for Steel was 300% greater than the 1935–39 average. In addition to Steel, the following eight industries' 1951–55 average dividend yields were at least 50% higher than in 1935–39:

Aircraft
Copper
Agricultural Machinery
Paper & Allied Products
Building Materials
Rubber
Nonferrous Metals
Department Stores

Relation of Industry Dividend Yields to Composite Experience. The lower field of Chart 11 shows the annual dividend yields for each industry as a per cent of the composite for the thirty-three industries. Table 19 is a compilation by periods of the same data.

As with earnings yields, taking as a measure of change the relation of each industry to the composite in 1951–55 as compared to 1935–55 and assuming that a difference of ten percentage points between the two periods constitutes a significant change, three industries had a significant increase in the valuation of their dividends relative to the composite.

	Percentage Points Change	Relation to Market 1951–55	1935–55
Apparel & Accessories Chain Stores	11.9	94.0%	105.9%
Grocery Chains	11.8	100.0	111.8
Textile Fabrics	11.0	112.5	123.5

The following five industries had significant decreases in the valuation of their dividends in relation to the market:

	Percentage Points Change	Relation to Market 1951–55	1935–55
Agricultural Machinery	18.1	122.0%	103.9%
Building Materials	16.0	114.0	98.0
Copper	12.8	150.0	137.2
Steel	12.3	128.0	115.7
Cigarettes	12.2	124.0	111.8

Table 18. COMPARATIVE INDUSTRY PERFORMANCE

Dividend Yields
Industries Ranked According to Extent of Improvement
1951–55 Compared to 1935–39

Industry	Change from 1935–39 to 1951–55	1951–55	1935–39
Radio & Television	– 29.7%	4.5%	6.4%
Dairy Products	– 26.6	4.7	6.4
Grocery Chain Stores	– 24.2	5.0	6.6
Apparel & Accessories Chain Stores	– 24.2	4.7	6.2
Packaged Foods	– 18.3	4.9	6.0
Grain Mill Products	– 17.3	4.3	5.2
Proprietary Drugs	– 16.7	5.0	6.0
Mail-Order Houses	– 15.4	4.4	5.2
Ethical Drugs	– 12.2	3.6	4.1
Meat Packing	– 9.6	4.7	5.2
Automobiles	– 3.1	6.3	6.5
Metal Containers	– 2.4	4.1	4.2
Toilet Preparations & Soap	0	4.0	4.0
Chemicals	+ 3.2	3.2	3.1
Corn Products	+ 4.1	5.1	4.9
Distilling	+ 5.5	5.8	5.5
Cigarettes	+ 6.9	6.2	5.8
Textile Fabrics	+ 9.8	5.6	5.1
Limited-Price Variety Stores	+ 10.4	5.3	4.8
Electrical Supplies & Equipment	+ 20.0	4.2	3.5
Glass Containers	+ 20.0	4.8	4.0
Oil	+ 21.1	4.6	3.8
Automobile Parts & Accessories	+ 24.0	6.2	5.0
General Industrial Machinery	+ 40.9	6.2	4.4
Department Stores	+ 50.0	6.0	4.0
Nonferrous Metals	+ 59.5	5.9	3.7
Rubber	+ 73.1	4.5	2.6
Building Materials	+ 78.1	5.7	3.2
Paper & Allied Products	+ 83.3	4.4	2.4
Agricultural Machinery	+ 90.6	6.1	3.2
Copper	+ 92.3	7.5	3.9
Aircraft	+181.8	6.2	2.2
Steel	+300.0	6.4	1.6
Composite	+ 16.3	5.0	4.3

Table 19. COMPARATIVE INDUSTRY [redacted]

Dividend Yields for Each Industry as Per cent of Composite
Industries Ranked According to 1951–55 Average
Selected Periods

Industry	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Chemicals	64.0%	68.2%	63.6%	68.6%	72.1%	66.7%
Ethical Drugs	72.0	65.1	69.1	76.5	95.3	85.7
Toilet Preparations & Soap	80.0	90.9	85.5	88.2	93.0	88.1
Metal Containers	82.0	66.7	76.4	80.4	97.7	92.9
Electrical Supplies & Equipment	84.0	86.4	81.8	84.3	81.4	76.2
Grain Mill Products	86.0	74.2	81.8	90.2	120.9	100.0
Mail-Order Houses	88.0	86.4	87.3	94.1	120.9	81.0
Paper & Allied Products	88.0	110.6	90.9	94.1	55.8	78.6
Radio & Television	90.0	92.4	89.1	94.1	148.8	92.9
Rubber	90.0	127.3	94.5	98.0	60.5	76.2
Oil	92.0	84.8	89.1	92.2	88.4	88.1
Meat Packing	94.0	75.8	100.0	102.0	120.9	90.5
Dairy Products	94.0	92.4	94.5	103.9	148.8	97.6
Apparel & Accessories Chain Stores	94.0	90.9	94.5	105.9	144.2	100.0
Glass Containers	96.0	75.8	87.3	88.2	93.0	92.9
Packaged Foods	98.0	84.8	92.7	100.0	139.5	97.6
Proprietary Drugs	100.0	86.4	94.5	102.0	139.5	102.4
Grocery Chain Stores	100.0	90.9	98.2	111.8	153.5	104.8
Corn Products	102.0	86.4	96.4	100.0	113.9	121.4
Limited-Price Variety Stores	106.0	84.8	98.2	102.0	111.6	121.4
Textile Fabrics	112.0	127.3	121.8	123.5	118.6	109.5
Building Materials	114.0	100.0	109.1	98.0	74.4	102.4
Distilling	116.0	103.0	112.7	113.7	127.9	111.9
Nonferrous Metals	118.0	109.1	116.4	110.0	86.0	123.8
Department Stores	120.0	112.1	118.2	115.7	93.0	119.0
Agricultural Machinery	122.0	104.5	116.4	103.9	74.4	123.8
Automobile Parts & Accessories	124.0	127.3	125.4	127.4	116.3	128.6
General Industrial Machinery	124.0	116.7	121.8	119.6	102.3	119.0
Cigarettes	124.0	83.3	107.3	111.8	134.9	138.1
Aircraft	124.0	124.2	120.0	127.4	51.2	121.4
Automobile	126.0	151.5	132.7	133.3	151.2	121.4
Steel	128.0	122.7	125.4	115.7	37.2	119.0
Copper	150.0	118.2	145.4	137.2	90.7	161.9

All three industries that had significant increases in the valuation of their dividends were among the eleven industries whose valuation with respect to earnings yields improved the most. In contrast, out of the five industries which had substantially lower dividend valuations only two—Cigarettes and Steel—also had substantially lower earnings valuations.

Stability of Dividend Yields. It may be observed from Chart 6 that across the twenty-one-year span the composite dividend yield for the thirty-three industries was more stable than the earnings yield. The extent to which this greater stability is also borne out in the case of individual industries may be seen from a comparison of Charts 10 and 11. Not only did the annual dividend yields of most of the thirty-three industries display considerably more stability than their respective earnings yields, but also, in terms of the annual deviations of the individual industry yields from the composite for the thirty-three industries, dividend yields were more stable than earnings yields.

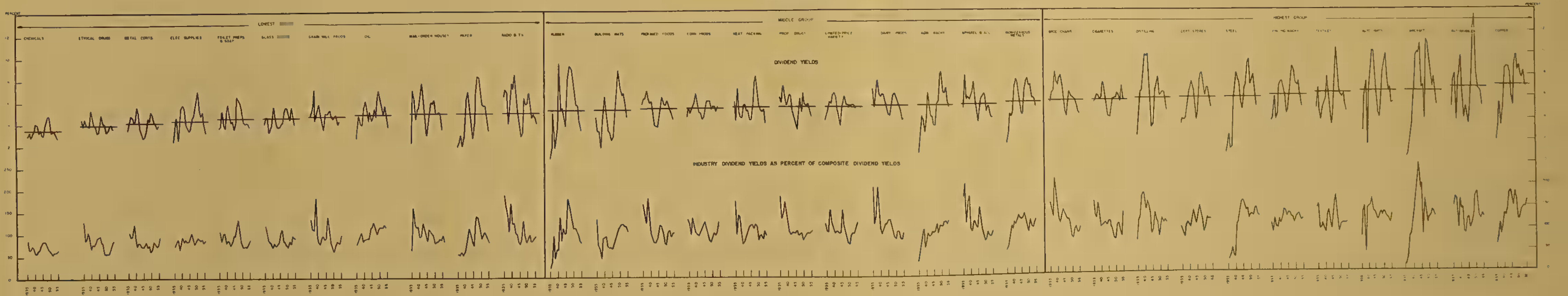
The observations as to stability were confirmed by comparing the coefficient of variation of dividend yields over the 1935–55 period of each industry with its coefficient of variation of earnings-price ratios over the same period. Although for a few industries there was not a great difference, the average of the coefficients of variation of earnings-price ratios for all thirty-three industries (0.36) was considerably higher than that for dividend yields (0.26).

The ten industries with the most stable dividend yields were:

- Corn Products
- Ethical Drugs
- Cigarettes
- Limited-Price Variety Stores
- Glass Containers
- Grain Mill Products
- Dairy Products
- Packaged Foods
- Chemicals
- Proprietary Drugs

Chart 11. COMPARATIVE INDUSTRY PERFORMANCE

Dividend Yields
Industries Ranked According to 1935–1955 Average
And Industry Yields ▬ Percentages of Composite Yields
1935–1955



In contrast, the following ten industries had the most unstable dividend yields:

- Aircraft
- Rubber
- Steel
- Paper & Allied Products
- Electrical Supplies & Equipment
- Building Materials
- Automobile
- Agricultural Machinery
- Automobile Parts & Accessories
- Distilling

This greater stability of dividend yields is to be anticipated. There is [illegible] long-run tendency for both stock prices and dividends to be more stable than earnings and therefore for dividend yields to be more stable than earnings yields. As with most broad generalizations, this one is subject to many exceptions such as those noted above.

Correlation Analysis. When correlation analysis is applied to the average dividend yields of the thirty-three industries, as was done with earnings-price ratios, no significant relationships are observed between the average dividend yields and either average payout rates, average levels, or stability of earnings rates on common stocks. The highest coefficient of correlation was for stability of earnings rates, and it was only 0.40.

As was pointed out in connection with earnings-price ratios, the correlation analysis of dividend yields relates to average levels of a period and is not directed to *changes* in dividend yields of an industry from year-to-year in relationship to *changes* in earnings levels, or payout rates.

Market Value to Book Value

The third manner in which the market's valuation of common stock is considered is in terms of the relationship of the market price of the common to its book value. This relationship is examined from four standpoints: (1) the changes and trends over the twenty-one year span, (2) the range and cluster for the thirty-three industries, (3) the stability

Table 20. COMPARATIVE INDUSTRY PERFORMANCE

Market Value to Book Value Relationships
Industries Ranked According to Extent of Improvement
1951–55 Compared to 1935–39

Industry	Change from 1935–39 to 1951–55	1951–55	1935–39
Paper & Allied Products	+84.7%	157%	85%
Steel	+43.6	79	55
Oil	+41.3	130	92
Dairy Products	+38.1	156	113
Grocery Chain Stores	+31.7	137	104
Copper	+22.1	105	[illegible]
Textile Fabrics	+17.9	79	67
Meat Packing	+12.8	53	47
Rubber	+11.2	119	107
Department Stores	+10.4	106	96
Grain Mill Products	+ 9.7	124	113
Chemicals	+ 7.3	281	329
Mail-Order Houses	− 6.2	150	160
Electrical Supplies & Equipment	−10.8	223	250
Corn Products	−13.0	174	200
Automobiles	−17.6	224	272
Apparel & Accessories Chain Stores	−18.0	241	294
Toilet Preparations [illegible] Soap	−21.3	203	258
Proprietary Drugs	−22.9	253	392
Building Materials	−26.8	142	194
Radio & Television	−27.8	148	205
Agricultural Machinery	−29.1	78	110
Glass Containers	−30.7	176	254
Automobile Parts & Accessories	−30.9	121	175
Limited-Price Variety Stores	−31.6	132	193
Distilling	−34.4	86	131
General Industrial Machinery	−36.0	128	200
Metal Containers	−37.2	135	215
Nonferrous Metals	−43.2	159	280
Packaged Foods	−47.3	158	300
Ethical Drugs	−51.4	284	584
Aircraft	−55.3	134	300
Cigarettes	−56.3	135	309
Composite	+ 3.6	143	138

of the relationship, and (4) the correlation between the market-price book-value relationship and certain earnings series.

Period Comparison and Trends. Although there was a marked increase in the market's appraisal of book value in the last two years (Chart 6, page 38), and although in 1955 it was at an all-period high (179%), the 1951–55 average of 143% was only slightly above 1935–39's 138%. The 1947–50 average (109%) was considerably below that for any of the other periods.

In spite of the fact that the 1951–55 composite average was slightly higher than that for 1935–39, only twelve of the thirty-three industries had a higher market-to-book ratio in the latter period. In Table 20 the data for the individual industries, which are ranked according to the extent of their 1951–55 improvement over 1935–39, are set forth. The wide difference in the experiences of the industries is striking. Whereas the Paper & Allied Products Industry's market-to-book ratio rose by 85% (market price jumped from 85% to 157% of book value), Cigarettes' declined by 56% (from 309% to 135%). Other industries which suffered heavy declines were Aircraft, Ethical Drugs, and Packaged Foods. On the other extreme—along with the top-ranking Paper & Allied Products Industry—Steel, Oil and Dairy Products headed the list of gainers.

The annual changes and trends in the individual industry data may be visually examined on Chart 12. It will be seen that, excluding Aircraft, the four industries which had the most pronounced downward trends over the twenty-one year span were Ethical Drugs, Cigarettes, Proprietary Drugs, and Packaged Foods. Fitted trends for each of the thirty-three industries reveal that, although in several instances it was very slight, nearly two-thirds of the industries had some downward drift for the period.

What changes have the differing postwar experiences brought to the rankings of the industries in terms of their market-to-book ratio? This may be seen by referring to Table 21, in which the industries are ranked according to their 1951–55 average relationships. If the industries were similarly ranked for the 1947–50 and 1935–39 periods, it would be found that out of the top ten industries in 1951–55 the following six also stood among the top ten in the other two spans:

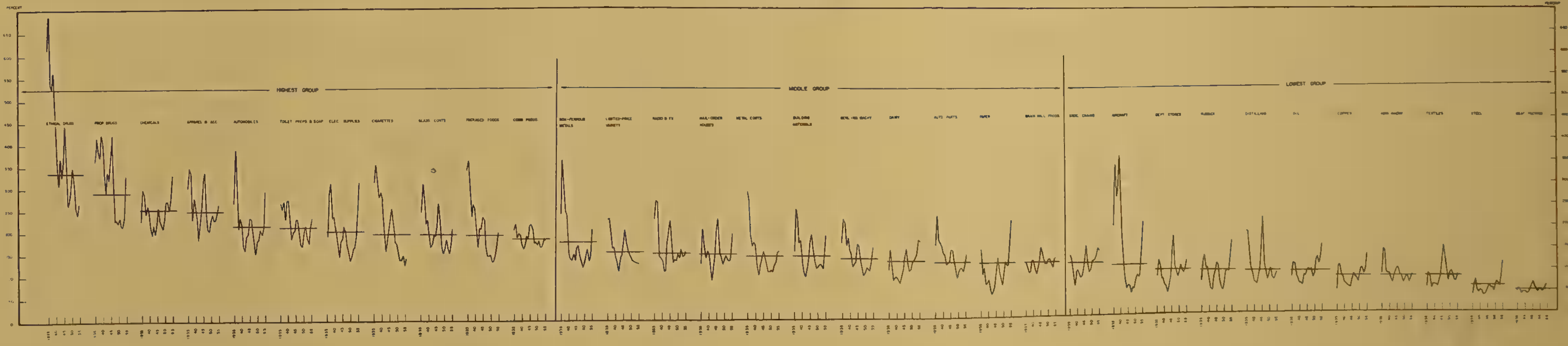
Table 21. COMPARATIVE INDUSTRY PERFORMANCE

Market Value to Book Value Relationship for Selected Periods
Industries Ranked According to 1951–55 Average

Industry	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Ethical Drugs	284%	297%	288%	333%	584%	264%
Chemicals	281	222	262	252	262	329
Proprietary Drugs	253	239	248	289	392	328
Apparel & Accessories Chain Stores	241	220	233	247	294	264
Automobiles	224	175	208	214	272	292
Electrical Supplies & Equipment	223	148	197	202	250	312
Toilet Preparations & Soap	203	185	197	211	258	232
Glass Containers	176	173	175	194	254	205
Corn Products	174	180	176	184	200	180
Nonferrous Metals	159	131	149	177	280	205
Packaged Foods	158	152	156	193	300	195
Paper & Allied Products	157	91	136	124	85	220
Dairy Products	156	119	142	130	113	174
Mail-Order Houses	150	136	145	148	160	193
Radio & Television	148	136	145	127	205	154
Building Materials	142	127	137	143	194	189
Grocery Chain Stores	137	110	127	119	104	145
Cigarettes	135	177	151	194	309	138
Metal Containers	135	111	126	144	215	154
Aircraft	134	62	108	112	300	210
Limited-Price Variety Stores	132	156	142	153	193	128
Oil	130	89	116	96	92	156
General Industrial Machinery	128	111	122	136	200	162
Grain Mill Products	124	124	124	123	113	133
Automobile Parts & Accessories	121	108	117	127	175	144
Rubber	119	62	100	98	107	165
Department Stores	106	96	102	100	96	122
Copper	105	78	94	85	86	134
Distilling	86	[illegible]	87	97	131	91
Steel	79	54	70	61	55	116
Textile Fabrics	79	89	[illegible]	83	67	84
Agricultural Machinery	78	75	77	84	110	85
Meat Packing	53	50	67	51	47	62
Composite	143	109	131	127	138	179

Chart 12. COMPARATIVE INDUSTRY PERFORMANCE

Market Value to Book Value of Common Stock
Ranked According to 1935–1955 Average
1935–1955



Ethical Drugs
Chemicals
Proprietary Drugs
Apparel & Accessories Chain Stores
Automobiles
Toilet Preparations & Soap

Likewise the following seven industries were among the ten which had the lowest market-to-book relationship in the three periods:

Meat Packing
Agricultural Machinery
Textile Fabrics
Steel
Copper
Department Stores
Rubber

Range of Data. From Table 21 the substantial spread between the lowest and the highest market-to-book ratios may also be noted. In 1951–55 the range was from 53% (Meat Packing) to 284% (Ethical Drugs). Furthermore, in every period, except 1955, these two industries stood at the bottom and top of the list, respectively. Although the range is substantial there is considerable cluster in the data. For example, in 1951–55 the range, as already cited, was from 53% to 284% or a spread of 231 percentage points. However, the market-to-book ratios of sixteen of the industries lie within a spread of 51 percentage points—from 124% to 174%.

Stability. The stability of the market-to-book relationship for the thirty-three industries was nearly the same as that for dividend yields and, therefore, more than that for earnings-price ratios. Based on a measurement of the annual standard deviations of each industry's market-to-book ratios from its 1935–55 average (coefficient of variation), the unweighted average was 0.27. The coefficient of variation for dividend yields was 0.26, and for earnings-price ratios was 0.36.

The ten industries with the most stable market-to-book ratios over the twenty-one year span, on the basis of their coefficients of variation, were:

Apparel & Accessories Chain Stores
Corn Products
Grain Mill Products
Chemicals
Toilet Preparations & Soap
Meat Packing
Limited-Price Variety Stores
Grocery Chains
Glass Containers
Mail-Order Houses

The ten industries with the least stable market-to-book relationships were:

Aircraft
Distilling
Electrical Supplies & Equipment
Paper & Allied Products
Nonferrous Metals
Copper
Ethical Drugs
Metal Containers
Cigarettes
Rubber

Correlation Analysis. As with earnings and dividend yields, correlation analysis was applied to the average market-value to book-value ratios of the thirty-three industries for the 1935–55 period in relation to the average levels of earnings rates on common capital, the stability of the earnings rates (as measured by the standard deviation around a fitted trend line divided by the mean of the industry's earnings rates), and the average payout rates.

The coefficient of multiple correlation between market-to-book and the other three factors was a high 0.92. The major factor was the average earnings rate followed by the payout rate and stability. In other words, as was to be anticipated, the primary determinant of the value of the assets behind common stock is their ability to produce earnings. Accordingly, a high correlation between the earnings rate on book value and the market-value to book-value relationship should ordinarily exist.

The coefficients of partial correlation were 0.87 for market-to-book and earnings level; 0.59 for market-to-book and payout rate; and 0.34 for market-to-book and stability.

It is to be emphasized that, as in connection with earnings-price ratios and dividend yields, this analysis has been applied to industry averages for a twenty-one-year period and expresses statistically observed relationships of a general nature. In other words, it relates to differences among the industry averages for an extended number of years and not to changes within an industry over a period of time.

Chapter 5

ANALYSIS BY INDUSTRY GROUPS

Industry Groupings

To present and discuss more systematically and effectively the substantial amount of information developed and to narrow the focus of interindustry comparisons, the industries covered by the study—with the exception of Building Materials—are combined into broad economic groups. The manufacturing industries were first divided between those whose principal products were consumers' or producers' goods. The consumers' goods industries were, in turn, subdivided according to whether their output was primarily durable or nondurable goods. The producers' goods industries were subdivided according to whether their products were primarily capital goods or raw materials and supplies. The five industries engaged in retail trade were combined into a single group. Because of the individualistic nature of the construction cycle and because of lack of clear identification with any of the other groups, the Building Materials Industry was left unclassified and treated as a separate group for purposes of group comparisons.

The group title and the industries included in each are as follows:

CONSUMERS' NONDURABLE GOODS GROUP

Cigarettes
Corn Products
Dairy Products
Distilling
Ethical Drugs
Grain Mill Products
Meat Packing
Oil
Packaged Foods
Proprietary Drugs
Rubber
Textile Fabrics
Toilet Preparations & Soap

CONSUMERS' DURABLE GOODS GROUP

Automobiles
Automobile Parts & Accessories
Radio & Television

PRODUCERS' CAPITAL GOODS GROUP

Agricultural Machinery
Aircraft
Electrical Supplies & Equipment
General Industrial Machinery

PRODUCERS' RAW MATERIALS & SUPPLIES GROUP

Chemicals
Copper
Glass Containers
Metal Containers
Nonferrous Metals
Paper & Allied Products
Steel

RETAIL TRADE GROUP

Apparel & Accessories Chain Stores
Grocery Chain Stores
Mail-Order Houses
Department Stores
Limited-Price Variety Stores

Before proceeding to the analysis, a word of caution is in order. It is to be noted that the six economic classifications are referred to herein as *"industry groups."* They are intentionally not called *"economic sectors."* In selecting industries, the fundamental objective was to choose those manufacturing and trade industries of primary investment importance. Accordingly, the selection was based on their relative size in terms of sales and net worth and without reference as to whether or not the results constituted a full representation of the industries within any sector of our economy. Therefore the data are not presented as being necessarily indicative of the results that would be obtained if statistics for all of the industries falling within the sector were available. Instead, the comparisons are of the relative performance of groups of industries which have certain common economic characteristics. It is in this light that the data must be interpreted by the reader.

EARNING POWER

Earnings Rates on Total Capital

To facilitate comparison of the earnings performance of the six groups, Tables 22 and 23 have been prepared. The first shows the absolute earnings rates on total capital of each group for selected prewar and postwar periods. The second shows the percentages by which the group earnings rates in each of the postwar periods were above or below the 1935–39 level. In each table the groups are ranked according to their standings in 1951–55.

Period Comparison. Before turning to [illegible] detailed analysis of the tables, three broad observations are to be made. First, although wide differences exist in the earnings levels of the six groups, the spread between industries in the postwar periods has been considerably narrower. (See also Chart 13.) Whereas in 1935–39 the range was from less than 6% for Producers' Raw Materials & Supplies to nearly 20% for Consumers' Durable Goods, in 1951–55 the spread was from about 10% for Retail Trade to approximately 20%, again for Consumers' Durable Goods.

Second, in every period the composite earnings rate of the industries in the Consumers' Durable Goods Group by far exceeded that for any other group of industries. If Chart 13 is referred to, it will be noted that only in two years (1942 and 1946) out of the span of twenty-one did the rate for the Consumers' Durable Goods Group drop out of the top position. In the entire postwar period it exceeded the composite figure by more than 75% (22% versus 12.5%) and in the prewar span by more than 120% (19.7% versus 8.9%).

Third, in the postwar span the composite earnings rate on total capital was highest in 1947–50, lowest in 1951–55, and in 1955 was a little above the 1951–55 average. With only one exception, the same is true of each group. The single exception is the Producers' Raw Materials & Supplies Group, which had higher earnings in 1955 than even in 1947–50.

With these broad points in mind, let us turn to [illegible] detailed examination of the comparative rates by periods. Although there was a rough similarity in the postwar earnings performance of the groups in that from a directional standpoint their earnings rates tended to move together, pronounced differences existed in the extent of the change in the level of earnings of the various groups. Table 23 sets forth each group's earnings rates on total capital in the postwar periods as [illegible] percentage of the 1935–39 average. The groups are ranked according to their improvement in 1951–55 over 1935–39.

The differences between the group rankings in the two tabulations are interesting. In 1951–55 only two groups had the same positions in

Table 22. COMPARATIVE GROUP PERFORMANCE

Earnings Rates on Total Capital for Selected Periods
Industries Ranked According to 1951–55 Average

Group	1951–55	1947–50	1947–55	1935–39	1955
Consumers' Durable Goods	19.9%	26.2%	22.0%	19.7%	23.8%
Building Materials	13.2	16.0	14.2	7.4	15.1
Producers' Capital Goods	12.0	12.3	12.1	9.5	11.8
Consumers' Nondurable Goods	11.0	12.4	11.5	7.4	11.1
Producers' Raw Materials & Supplies	10.6	12.0	11.1	5.5	12.7
Retail Trade	9.7	15.5	11.8	10.5	10.1
Composite	11.7	13.8	12.5	8.9	12.9

Table 23. COMPARATIVE [illegible] PERFORMANCE

Earnings Rates [illegible] Total Capital for Selected Postwar Periods
Per Cent Above [illegible] Below 1935–1939 Average
Industries Ranked According to 1951–1955 Improvement [illegible] 1935–1939 Average

Group	1951–55	1947–50	1947–55	1935–39	1955
Producers' Raw Materials & Supplies	+92.7%	+118.1%	+101.8	100%	+130.9
Building Materials	+78.3	+116.2	+ 91.9	100	+104.1
Consumers' Nondurable Goods	+48.6	+ 67.5	+ 55.4	100	+ 50.0
Producers' Capital Goods	+26.3	+ 29.4	+ 27.4	100	+ 24.2
Consumers' Durable Goods	+ 1.0	+ 32.9	+ 11.7	100	+ 20.8
Retail Trade	− 7.6	+ 47.5	+ 12.4	100	− 3.8
Composite	+31.5	+ 55.1	+ 40.4	100	+ 44.9

both (i.e., on the basis of both level of earnings and percentage improvement their rankings were identical): Building Materials was in second place in each table and Retail Trade was in sixth place.

Wide variance in earnings improvement existed in each postwar period (Table 23). For example, in 1951–55 the range was from approximately -8% for Retail Trade to +93% for Producers' Raw Materials & Supplies. Although the range was wide in each period and there was some shifting in position from one period to another, the three groups with the lowest earnings rates in 1935–39 had the highest percentage gain in all postwar periods. Contrariwise, those with the highest earnings rates in 1935–39 had the least improvement. In fact, one of them—Retail Trade—had lower earnings rates in both 1951–55 and 1955 than in 1935–39.

Producers' Raw Materials & Supplies enjoyed the greatest earnings improvement in every postwar period. This group, however, had by far the lowest return on total capital in 1935–39 (5.5%). Thus, in a period of prosperity a much more substantial rise was to be anticipated for it than for a group—such as Consumers' Durable Goods—which had an excellent return in 1935–39.

The runner-up was Building Materials, another industry with a low 1935–39 earnings rate (slightly over 7%). In 1947–50 its improvement was very close to that for Producers' Raw Materials & Supplies (116% and 118%), but in the subsequent periods was lower (1951–55—78% and 93%; 1955—104% and 131%). Nevertheless, Building Materials was well above Consumers' Nondurable Goods—the next ranking group—in each period. Interestingly, in 1935–39 the Consumers' Nondurable Group had the same low earnings rate as Building Materials (7.4%).

The higher prewar earners—Producers' Capital Goods (about 10%) and Consumers' Durable Goods (nearly 20%)—had rises of 26% and 1%, respectively, in 1951–55 and 24% and 21% in 1955.

The plight of the Retail Trade Group has already been discussed. It is the only group of industries to have a postwar record below that for 1935–39.

In view of the differing degrees of improvement in earnings rates of the groups, what changes took place in their rankings—1951–55 as compared to 1935–39? Two major changes occurred: Retail Trade dropped from second place to sixth and Building Materials climbed from fourth or fifth place (it ranked equally in 1935–39 with Consumers' Nondurable Goods) to second. Producers' Raw Materials & Supplies, whose earnings rate improved the most, moved only one rung in the ranking—from sixth to fifth place. The other three groups—Consumers' Durable Goods, Producers' Capital Goods, and Consumers' Nondurable Goods—ranked the same in both periods.

Trends. From Chart 13 certain broad trends for two or three of the groups may be readily observed. To be more explicit, the trend for each of the six groups has been measured over the 1935–55 period by the least squares method. As indicated by the Chart, the Producers' Raw Materials & Supplies and Building Materials groups, which started from low 1935–39 levels, had the most pronounced upward trends in their earnings rates on total capital. They were followed by Consumers' Nondurable Goods. Producers' Capital Goods and Retail Trade had slight upward drifts, but Consumers' Durable Goods had practically a horizontal trend from 1935 through 1955.

Stability. The earnings rates on total capital fluctuated much more widely over the twenty-one years for Consumers' Durable than for any other group (Chart 13). It is followed by Producers' Capital Goods. The earnings rates for the other groups intertwined considerably, and thus the amplitude of their fluctuations can be less readily observed. However, measured in terms of deviations from their 1935–55 trends,[1]

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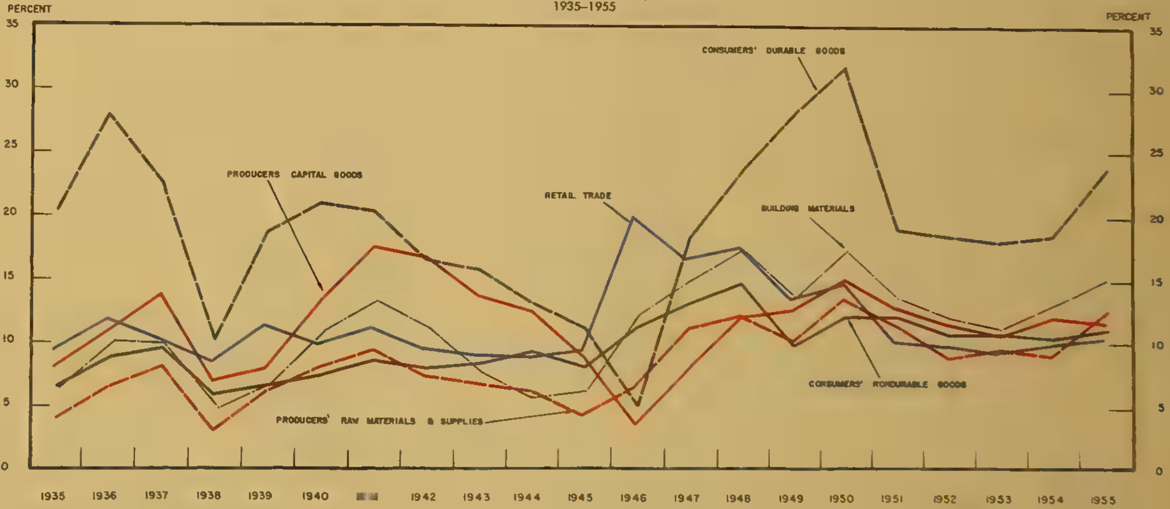
[1] The stability of the composite earnings rates for the several groups was also measured in terms of deviations from the 1935–55 average. However, since pronounced trends existed for three of the industries for the twenty-one-year period covered, it is considered more meaningful to judge stability on this basis.

Chart 13. INDUSTRY GROUPS

Earnings Rates on Total Capital
1935–1955



these groups—beginning with the most unstable—stand as follows:

- Building Materials
- Producers' Raw Materials & Supplies
- Retail Trade
- Consumers' Nondurable Goods

The earnings rate on total capital is the product of the "profit margin" (earnings available total capital divided by sales) and "turnover of capital" (sales divided by total capital). The next step, therefore, is to examine changes in the profit margin and in turnover of total capital between the selected periods.

Profit Margins

As might be anticipated from the findings in Chapter 4, no group (with the exception of Building Materials) enjoyed in either 1947–50 or 1951–55 an average profit margin higher than that for 1935–39. Note from the tabulation below that only the Consumers' Nondurable Goods and Producers' Raw Materials & Supplies groups had profit margins which even equaled their 1935–39 averages—and then only in 1947–50. The other three groups had substantially lower margins in both periods. However, in the single year 1955 the profit margins of the Consumers' Nondurable Goods and Producers' Raw Materials & Supplies groups slightly exceeded their 1935–39 averages and that of Building Materials remained well above its 1935–39 level.

Group	Profit Margins				
	1951–55	1947–50	1947–55	1935–39	[redacted]
Building Materials	9.2%	11.4%	10.0%	8.3%	10.3%
Producers' Raw Materials & Supplies	7.8	9.3	8.4	9.3	9.4
Consumers' Nondurable Goods	6.9	7.2	7.1	7.2	7.3
Consumers' Durable Goods	6.1	8.6	6.9	11.2	7.5
Producers' Capital Goods	4.6	6.5	5.1	10.8	4.8
Retail Trade	3.0	4.1	3.4	4.6	3.2
Composite	6.1	7.2	6.5	7.8	6.9

A computation of the percentage which the 1951–55 profit margin of each group was above or below that for 1935–39 reveals even more strikingly the changes which have occurred:

Building Materials	+11%
Consumers' Nondurable Goods	– 4
Producers' Raw Materials [redacted] Supplies	–16
Retail Trade	–35
Consumers' Durable Goods	–46
Producers' Capital Goods	–58
Composite	–22

Although there was [redacted] 22% decline in the profit margin for the weighted composite, the range for the groups is from [redacted] gain of 11% to a loss of over one-half.

Capital Turnover

In contrast to their profit-margin experience, all groups showed substantial improvement in capital turnover in the postwar periods as contrasted to 1935–39.

Group	Sales to Total Capital				
	1951–55	1947–50	1947–55	1935–39	[redacted]
Retail Trade	327%	377%	345%	227%	319%
Consumers' Durable Goods	326	301	318	175	316
Producers' Capital Goods	260	190	235	[redacted]	248
Consumers' Nondurable Goods	159	171	164	103	152
Building Materials	144	140	142	89	147
Producers' Raw Materials [redacted] Supplies*	132	127	130	53	133
Composite	191	191	191	101	187

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*These data [redacted] not strictly comparable to the earnings rates on total capital because they do not include the Nonferrous Metals Industry. However, the earnings rates on total capital for the group would be little affected if the Nonferrous Metals Industry were excluded. Therefore, comparisons of the three series for the group may be made without adjustments of the earnings rates [redacted] total capital.

If the relative standings of the six groups are compared period by period, there is impressive stability. Except for the changes occasioned by the jump of Producers' Capital Goods from fifth place in 1935–39 to third place in every other period, the rankings of all of the industries remained unchanged across time. This fact does not imply that the improvement in capital turnover is the same for all groups. Actually, as may be seen from the following tabulation, wide differences existed in the percentage which the 1951–55 turnover was above that for 1935–39:

Producers' Capital Goods	+196%
Producers' Raw Materials [illegible] Supplies	+149
Consumers' Durable Goods	+ 86
Building Materials	+ 62
Consumers' Nondurable Goods	+ 54
Retail Trade	+ 44

Earnings Rates on Common-Stock Capital

Although, as pointed out in Chapter 4, pronounced changes took place in the percentage of common stock capital to total capital of several individual industries over the 1935–55 period, taken by groups they have been modest. This fact is shown by a tabulation of the averages for selected periods. Furthermore, the differences in this regard among the several groups were rather limited. In three of the periods—1951–55, 1947–50, and 1947–55—the range between the highest and the lowest did not exceed 10 percentage points. The 1935–39 spread of 13 percentage points was only slightly greater.

Group	Common-Stock Per Cent of Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Building Materials	88%	85%	87%	84%	90%
Consumers' Durable Goods	[illegible]	84	87	83	86
Producers' Capital Goods	82	80	82	85	82
Retail Trade	[illegible]	85	[illegible]	79	79
Producers' Raw Materials [illegible] Supplies	78	80	79	72	78
Consumers' Nondurable Goods	78	75	77	75	80
Composite	80	79	79	76	80

Two facts result from the foregoing: (1) because of the relative consistency of the common-stock percentages of the individual groups, the comparative performance of these groups in terms of their earnings rates on common-stock capital closely parallels that in terms of their earnings rates on total capital; and (2) because of the limited difference in common-stock proportions between the groups, the earnings leverage was roughly comparable. These facts may be observed from Table 24, which shows the comparative earnings rates on common-stock capital and total capital by periods.

Summary

Four primary facts emerge from this comparative analysis of group earnings rates on total capital and common-stock capital. (1) Retail Trade, due to a substantial decline in profit margins, was the only group not to show a higher earnings rate on total capital in 1951–55 than in 1935–39. (2) The most pronounced rise in the return on total capital was enjoyed by the three low-earners in 1935–39—Producers' Raw Materials & Supplies, Building Materials, and Consumers' Nondurable Goods. The rise was the combined result of a substantial increase in turnover with little or no decline in profit margin. (3) Although there were wide differences in group experiences, Consumers' Durable Goods remained the highest earner throughout. (4) Because of the consistency of their capital structures across time and the limited differences in leverage, the comparative group experience in terms of rate of return on common-stock capital closely parallels that on total capital.

MARKET VALUATION

Earnings-Price Ratios (Earnings Yields)

Although the fluctuations in the earnings-price ratios of Consumers' Durable Goods are wider than the others, the movements of the annual earnings yields of all of the groups are roughly similar over the twenty-one-year span (Chart 14). The earnings yields for five of the groups were at their prewar lows (highest multipliers) in 1938, reached their wartime highs (lowest multipliers) in 1941 or 1942, and declined to their postwar lows (highest multipliers) in 1945 or 1946. The earnings

Table 24. COMPARATIVE GROUP PERFORMANCE

Earnings Rates on Common Stock and Total Capital for Selected Periods
Groups Ranked According to 1951–55 Average

Group	1951–55		1947–50		1947–55		1935–39		1955	
	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital
Consumers' Durable Goods	22.1%	19.9%	30.4%	26.2%	24.8%	22.0%	22.7%	19.7%	27.2%	23.8%
Building Materials	14.4	13.2	18.3	16.0	15.8	14.2	7.7	7.4	16.5	15.1
Producers' Capital Goods	13.9	12.0	14.6	12.3	14.1	12.1	10.0	9.5	13.8	11.8
Consumers' Nondurable Goods	13.2	11.0	15.3	12.4	14.0	11.5	8.0	7.4	13.3	11.1
Producers' Raw Materials & Supplies	12.7	10.6	14.1	12.0	13.2	11.1	5.4	5.5	15.5	12.7
Retail Trade	11.5	9.7	17.5	15.5	13.8	11.8	11.8	10.5	12.1	10.1
Composite	14.0	11.7	16.6	13.8	14.9	12.5	8.8	8.0	15.4	12.9

yield for Retail Trade—the lone exception—rose from 1935 to 1939 and then declined in 1940. The postwar high yields (lowest multipliers) for Retail Trade and Consumers' Nondurable Goods were in 1948, for Consumers' Durable Goods in 1949, and for Producers' Capital Goods, Producers' Raw Materials & Supplies, and Building Materials in 1950.

In the following tabulation the earnings yields for the six groups and the composite are set forth for the entire twenty-one-year span and for selected periods. In the postwar periods the earnings yields of five of the six groups were higher than in 1935–39. The single exception was, again, Retail Trade, whose 1955 earnings yield was slightly lower (multiplier higher) than that for 1935–39. In contrast, the 1951–55 earnings yields for five of the groups (all except Building Materials) were below their 1935–55 averages and in 1955 all were lower.

Group	Earnings-Price Ratios					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Retail Trade	8.0%	12.7%	9.7%	9.1%	7.3%	7.2%
Producers' Capital Goods	9.0	13.8	10.3	9.3	5.0	6.6
Producers' Raw Mat. [illegible] Supplies	9.2	14.5	10.7	9.3	4.7	8.7
Building Materials	10.2	14.4	11.5	9.6	4.0	8.7
Consumers' Nondurable Goods	10.3	15.4	11.8	10.7	6.8	8.7
Consumers' Durable Goods	10.9	18.8	13.1	11.4	8.7	10.4
Composite	9.8	15.2	11.4	10.1	6.3	8.6

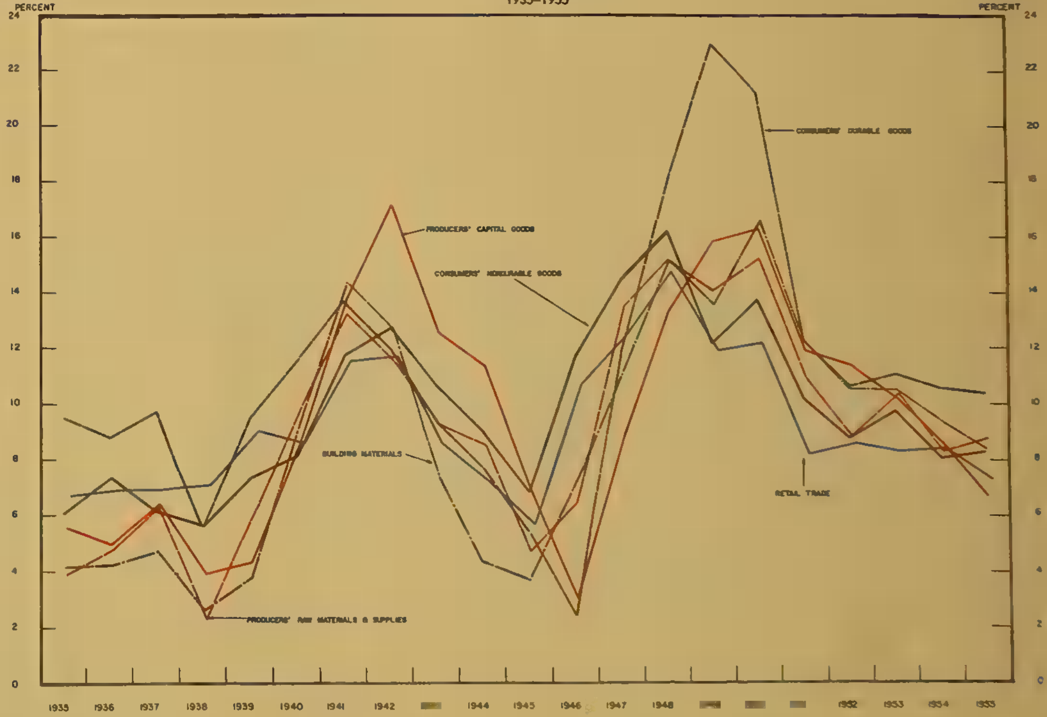
Note that Retail Trade and Producers' Capital Goods had the lowest average earnings-price ratios (highest multipliers) for the 1935–55 span and for each postwar period. In contrast, Consumers' Durable Goods and Consumers' Nondurable Goods had the highest average earnings-price ratios (lowest multipliers) for the same periods. Excluding the 1935–39 standings, there has been marked stability in the rankings of the groups.

Based on the percentage relationship of the 1951–55 earnings-price ratio of each group to its own 1935–55 average, Retail Trade showed the most improvement. That is, the percentage decline in the earnings yield (increase in the multiplier) was more than for any other group. Retail Trade was followed by Consumers' Durable Goods. Next, in terms of improvement, came Consumers' Nondurable Goods, Producers' Capital Goods, and Producers' Raw Materials & Supplies. Building Materials was the only group to have a higher earnings yield in 1951–55 than in 1935–55.

An explanation of the foregoing earnings-price relationships would require a careful examination of the earnings and the price situation period by period. Suffice it to point out the significant fact that the two groups with the most marked improvement—Retail Trade and Consumers' Durable Goods—had the lowest earnings rates in 1951–55 in relation to their own 1935–55 averages. In fact, their average rates for the last five

Chart 14. INDUSTRY GROUPS

Earnings-Price Ratios
1935–1955



years were below their 1935–55 averages, whereas all of the other groups had 1951–55 earnings rates above their full-span averages.

If the earnings yields of the individual groups for each period are computed as percentages of the composite yields for the respective periods (see below), the changes in the market's evaluation of the earnings of the individual groups may be judged in terms of the aggregate experiences—"the market." Taking the 1935–55 relationship of each group to the composite [redacted] [redacted] base and comparing it with that for 1951–55, three groups—Retail Trade, Consumers' Nondurable Goods, and Consumers' Durable Goods—showed gains in market position. That is, in 1951–55, the average group yield was [redacted] lower percentage of the composite than was true in 1935–55. In contrast, Producers' Raw Materials & Supplies and Building Materials lost ground.

Group	Earnings-Price Ratios as Per Cent of Composite					
	1951–55	1947–50	1947–55	1935–55	1935–39	[redacted]
Retail Trade	81.6%	83.6%	85.1%	90.1%	115.9%	83.7%
Producers' Capital Goods	91.8	90.8	90.4	92.1	79.4	76.7
Producers' Raw Materials & Supplies	93.9	95.4	93.9	92.1	74.6	101.2
Building Materials	104.1	94.7	100.9	95.0	63.5	101.2
Consumers' Nondurable Goods	105.1	101.3	103.5	105.9	107.9	101.2
Consumers' Durable Goods	111.2	123.7	114.9	112.9	138.1	120.9

Payout Rates

Although there have been wide fluctuations at times, the payout rates for the groups have shown a general tendency to move together (Chart 15). Broadly speaking, payout rates rose from 1935 (58% for the composite) to 1939 (82%), and then, with two brief interruptions, moved downward to 1948 (37%). There was [redacted] substantial rise in 1949 (48%), and through 1954 (53%) the rate was slightly upward. In 1955 (48%) there was [redacted] limited decline.

Not only have the payout rates tended to move together, but there is rather striking uniformity when the average rates for several years are compared. Looking first at the longest period, the average deviation of payout rates by groups was only three percentage points. For the shorter periods the average deviations ranged from nearly three points in 1947–50 to slightly over four points in 1935–39.

The following period-by-period tabulation shows that Consumers' Nondurable Goods has had consistently the lowest payout rates, followed by Producers' Raw Materials & Supplies and Producers' Capital Goods. Consumers' Durable Goods and Retail Trade have had the highest distribution rates. Building Materials has been in a mid-position most of the time.

Group	Payout Rates					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Retail Trade	61.2%	47.0%	54.5%	56.9%	70.4%	56.5%
Consumers' Durable Goods	57.1	51.4	55.9	58.9	73.2	48.9
Building Materials	55.9	45.4	51.7	52.1	79.7	49.6
Producers' Capital Goods	54.8	46.8	51.9	53.2	67.1	60.0
Producers' Raw Materials [redacted] Supplies	53.5	45.2	50.3	53.3	66.0	47.9
Consumers' Nondurable Goods	45.7	37.8	42.7	45.8	65.4	44.3
Composite	51.4	43.6	48.4	50.8	67.8	48.2

Dividend Yields

Across the twenty-one-year span, there is [redacted] definite tendency for the dividend yields of the groups to move rather closely together (Chart 16). An exception is the yield for Consumers' Durable Goods, which has fluctuated widely and is the highest dividend-yielding group throughout much of the period. The yield for the Building Materials Group, during the period from 1941 to 1948, also departed somewhat from the relatively closely knit pattern of the other groups.

In general, dividend yields rose from 1935 (3.4% for the composite) to 1937 (5.0%), fell sharply in 1938 (3.8%), rose to 1941 (6.8%), and then steadily declined until 1946 (3.5%). From 1946 to 1950 (7.5%) yields rose substantially, after which they declined, reaching 4.2% in 1955.

A comparison of the individual group averages by periods emphasizes certain of the foregoing facts brought out from [redacted] examination of Chart 16.

Chart 15. INDUSTRY GROUPS

Percent of Earnings Paid Out in Dividends
1935–1955

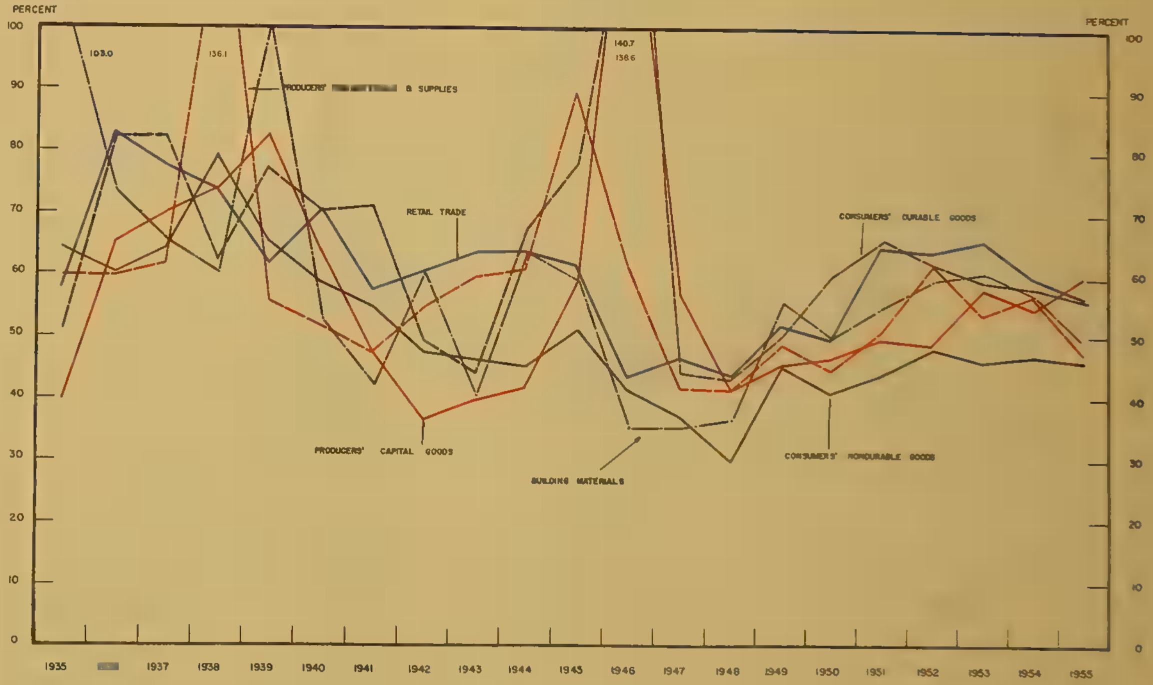
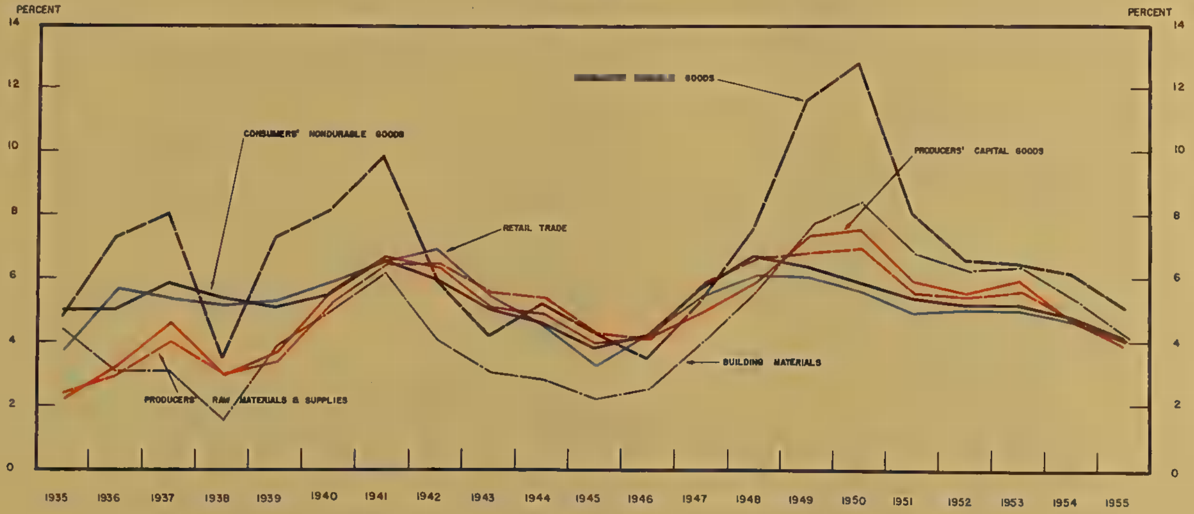


Chart 16. INDUSTRY GROUPS

Dividend Yields
1935–1955



Group	Dividend Yields					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Consumers' Nondurable Goods	4.7%	5.8%	5.0%	4.9%	4.4%	3.9%
Producers' Capital Goods	4.9	6.5	5.3	4.9	3.4	3.9
Producers' Raw Materials & Supplies	4.9	6.6	5.4	5.0	3.1	4.1
Retail Trade	4.9	6.0	5.3	5.2	5.2	4.1
Building Materials	5.7	6.6	6.0	5.0	3.2	4.3
Consumers' Durable Goods	6.2	9.7	7.2	6.7	6.4	5.1
Composite	5.0	6.6	5.5	5.1	4.3	4.2

For example, in 1951–55 the conformity of the dividend yields of the groups is particularly marked. The yields of four groups were in the 4.7% to 4.9% range. By coincidence three had identical average rates of 4.9%. Note that Consumers' Durable Goods had by far the highest yield throughout.

As already indicated, the average dividend yields for all groups were substantially lower in 1951–55 than in 1947–50. The 1955 yields were considerably below both 1947–50 and 1951–55. In fact, for three groups—Consumers' Nondurable Goods, Retail Trade, and Consumers' Durable Goods—the 1955 yields were also below their 1935–39 levels.

Contrary to the situation in regard to earnings-price ratios, in most instances there was little difference between the 1951–55 and 1935–55 average yields.

Following the procedure employed with respect to earnings-price ratios, the dividend yields of the individual groups have been computed as percentages of the composite in each period.

Group	Dividend Yields as Per Cent of Composite					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Consumers' Nondurable Goods	94.0%	87.9%	90.9%	96.1%	102.3%	92.9%
Producers' Capital Goods	98.0	98.5	96.4	96.1	79.1	92.9
Producers' Raw Materials & Supplies	98.0	100.0	98.2	98.0	72.1	97.6
Retail Trade	98.0	90.9	96.4	102.0	120.9	97.6
Building Materials	114.0	100.0	109.1	98.0	74.4	102.4
Consumers' Durable Goods	124.0	147.0	130.9	131.4	148.8	121.4

The data reveal that the Consumers' Nondurable Goods, Retail Trade, and Consumers' Durable Goods groups, based on their 1935–55 relations to "the market," had gained in 1951–55 (had lower yields). The Producers' Raw Materials & Supplies had the same market position in both periods. The Producers' Capital Goods and Building Materials groups, however, had higher relative yields in 1951–55 than in 1935–55.

Market Value to Book Value

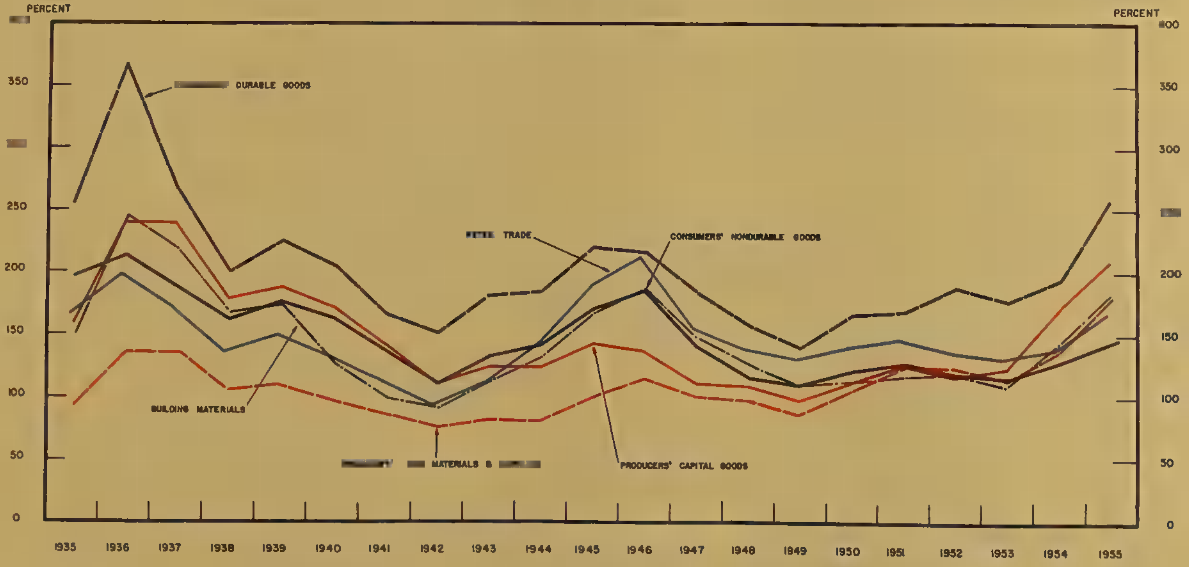
The conformity of the year-by-year movements of the groups is more pronounced in the relation of the market value of common stock to book value than in either earnings-price ratios or dividend yields (Chart 17). Using the composite relationship as the measure, the broad movement of the groups may be traced over the last twenty-one years. In 1935 the composite market value was 124% of book value (i.e., each $1.00 of book value was priced at $1.24 in the market). The next year the market-to-book ratio rose substantially (168%) and then declined to an all-period low in 1942 (87%). From 1942 to 1946 (140%) there was substantial recovery followed by a decline to another low in 1949 (98%). Since 1949, with an interruption in 1953, the movement has been markedly upward, reaching an all-period high in 1955 (179%).

The market-to-book relationships of the six groups for the usual periods of time have been compiled and are set forth below. Note that Consumers' Durable Goods had the highest market-to-book ratio throughout and that either Consumers' Nondurable Goods or Producers' Raw Materials & Supplies had the lowest in each period.

Group	Market Value to Book Value					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Consumers' Durable Goods	203%	161%	189%	198%	260%	262%
Producers' Capital Goods	154	106	137	144	199	211
Retail Trade	144	138	142	146	161	168
Building Materials	142	127	137	143	194	189
Producers' Raw Materials & Supplies	138	97	123	113	115	180
Consumers' Nondurable Goods	129	100	119	115	118	153
Composite	143	109	131	127	138	179

Chart 17. INDUSTRY GROUPS

Market Value to Book Value
1935–1955



Judging from the relationship of the 1951–55 ratio of each group to its 1935–55 average, Producers' Raw Materials & Supplies had the most improvement. It was followed by Consumers' Nondurable Goods, Producers' Capital Goods, and Consumers' Durable Goods. In contrast, both Retail Trade and Building Materials had 1951–55 market-to-book ratios which were slightly below their twenty-one-year averages. Note that in 1955 every group's ratio was substantially above its 1935–55 level.

Summary

The most salient facts developed by the foregoing analysis of the market's valuation of the common stocks of the six groups are: (1) the earnings-price ratios in 1951–55 were substantially below the high 1947–50 levels and close to the 1935–55 averages but, with the exception of Retail Trade, still considerably above the low 1935–39 levels; (2) although there has been a significant increase in the payout rate over the last five years, the postwar level has been well below that for 1935–39; (3) the extremely high 1947–50 dividend yield was followed by a substantial decline in 1951–55 but remained above the 1935–39 level; (4) although the market-to-book ratio for Consumers' Durable Goods was considerably above that for the other groups throughout the twenty-one-year span, there has been considerable shifting in the positions of other groups in recent years, marked particularly by the rise in the market-to-book ratios for Producers' Capital Goods and Producers' Raw Materials & Supplies; and (5) the spread between the groups in terms of earnings-price ratios, dividend yields, and market-to-book was substantially narrower in 1951–55 than in 1935–39.

Table 25. CONSUMERS' NONDURABLE GOODS

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL [redacted] cent	EARNINGS RATE per cent	EARNINGS TO [redacted] per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	6.5	6.6	98	74	6.7	5.9	64.3	3.8	114	94.4	90.0
1936	8.8	8.3	106	74	10.1	7.2	59.8	4.3	141	97.3	100.3
1937	9.4	8.3	114	77	10.4	8.0	63.8	5.1	131	99.2	109.8
1938	5.8	5.7	100	76	5.9	5.7	78.9	4.5	104	103.4	100.6
1939	6.6	6.8	97	75	7.1	6.8	64.6	4.4	104	105.7	99.3
1940	7.4	7.6	97	76	8.3	9.0	58.5	5.3	92	107.1	100.5
1941	8.6	7.2	119	76	9.9	11.4	54.4	6.2	[redacted]	109.1	125.6
1942	8.0	5.7	139	76	9.4	12.2	46.9	5.7	77	113.3	152.9
1943	8.4	5.3	159	77	9.8	9.8	45.7	4.5	100	118.2	181.6
1944	9.3	5.4	171	78	10.7	10.6	45.2	4.8	101	123.3	204.1
1945	8.1	5.0	164	78	9.2	7.8	50.9	4.0	118	129.4	205.2
1946	11.3	7.0	162	77	13.5	10.5	40.6	4.3	128	139.1	217.5
1947	13.2	7.0	190	76	16.1	14.7	37.3	5.5	110	157.3	288.2
1948	14.8	8.0	186	75	18.3	17.7	29.9	5.3	103	182.6	327.0
1949	9.9	6.4	155	74	12.3	13.8	45.4	6.3	89	207.3	311.2
1950	12.2	7.6	162	76	15.0	15.1	40.6	6.1	99	216.8	338.7
1951	12.2	7.0	174	77	14.7	12.1	44.2	5.4	122	234.5	394.6
1952	10.7	6.5	165	77	12.9	10.4	47.7	5.0	124	256.9	408.8
1953	10.8	6.9	158	77	13.1	11.8	45.7	5.4	111	277.0	420.9
1954	10.5	6.9	152	[redacted]	12.4	9.7	46.8	4.5	128	296.4	434.1
1955	11.1	7.3	152	[redacted]	13.3	8.7	44.3	3.9	153	319.2	466.2
AVERAGES											
1935—1939	7.4	7.2	103	75	8.0	6.8	65.4	4.4	118		
1947—1955	11.5	7.1	164	77	14.0	11.8	42.7	5.0	119		
1947—1950	12.4	7.2	171	75	15.3	15.4	37.8	5.8	100		
1951—1955	11.0	6.9	159	78	13.2	10.3	45.7	4.7	129		

Table 26. CONSUMERS' DURABLE GOODS

[illegible]	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	20.3	12.0	169	80	24.3	9.5	50.7	4.8	256	90.2	86.9
1936	27.7	13.8	201	83	32.4	8.8	82.4	7.3	367	95.6	109.7
1937	22.6	10.4	217	84	26.0	9.7	82.1	8.0	266	100.2	124.3
1938	10.2	7.9	130	84	11.2	5.6	62.1	3.5	199	104.8	77.4
1939	18.8	11.5	163	85	21.2	9.5	76.8	7.3	224	109.2	101.7
1940	21.0	10.2	206	86	23.7	11.5	70.4	8.1	206	114.8	134.1
1941	20.5	7.7	266	86	22.9	13.7	71.1	9.8	167	122.0	183.9
1942	16.6	6.5	256	87	18.3	12.0	49.4	5.9	152	130.8	189.8
1943	15.8	4.2	373	88	17.2	9.5	44.5	4.2	182	143.8	303.9
1944	13.3	3.4	393	89	14.4	7.8	67.4	5.2	185	155.4	343.9
1945	11.4	3.7	307	90	12.1	5.5	78.5	4.3	220	158.5	274.1
1946	5.1	2.9	177	84	5.4	2.5	140.7	3.5	217	171.3	170.1
1947	18.3	6.7	272	79	22.1	11.9	44.1	5.3	185	196.4	299.7
1948	23.7	8.3	286	82	28.3	17.9	42.6	7.6	158	225.1	361.4
1949	28.1	9.5	296	86	32.2	23.0	50.3	11.6	140	254.9	424.3
1950	31.8	9.4	338	89	35.3	21.2	60.4	12.8	167	284.7	541.2
1951	19.0	5.8	327	89	20.8	12.3	65.7	8.1	169	311.5	572.3
1952	18.5	5.7	322	89	20.3	10.7	61.5	6.6	189	331.4	599.2
1953	18.0	4.7	381	90	19.7	11.1	58.6	6.5	178	359.4	767.8
1954	18.5	6.3	292	87	20.7	10.6	58.1	6.2	195	411.4	675.1
1955	23.8	7.5	316	86	27.2	10.4	48.9	5.1	262	493.6	874.8
AVERAGES											
1935—1939	19.7	11.2	175	83	22.7	8.7	73.2	6.4	260		
1947—1955	22.0	6.9	318	87	24.8	13.1	55.9	7.2	189		
1947—1950	26.2	8.6	301	84	30.4	18.8	51.4	9.7	161		
1951—1955	19.9	6.1	326	[illegible]	22.1	10.9	57.1	6.2	203		

Table 27. PRODUCERS' CAPITAL GOODS

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO [redacted] per cent	SALES TO TOTAL CAPITAL per cent	COMMON [redacted] TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per [redacted]	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET [redacted] index
1935	8.0	12.0	67	82	8.5	5.5	40.2	2.2	155	94.0	71.3
1936	10.9	12.8	85	[redacted]	11.7	4.9	65.2	3.2	238	95.9	92.5
1937	13.8	12.5	111	86	15.1	6.3	69.8	4.4	238	100.2	126.0
1938	6.9	8.0	[redacted]	86	7.0	3.9	73.8	2.9	177	104.0	102.5
1939	7.9	[redacted]	89	[redacted]	8.0	4.3	83.1	3.6	186	105.9	107.7
1940	13.3	10.8	124	[redacted]	14.4	8.5	64.5	5.5	170	109.3	153.7
1941	17.6	8.4	209	86	19.3	13.6	48.5	6.6	141	119.1	284.5
1942	16.8	5.1	328	[redacted]	18.8	17.1	36.7	6.3	110	136.4	508.7
1943	13.8	3.1	446	84	15.6	12.5	40.2	5.0	124	155.6	789.8
1944	12.7	2.7	466	85	14.0	11.3	42.4	4.8	123	168.5	893.0
1945	9.1	2.7	340	88	9.4	6.7	58.6	3.9	142	174.7	676.2
1946	3.9	3.6	107	83	4.0	3.0	138.6	4.1	135	191.0	233.4
1947	8.3	5.1	162	77	9.7	8.6	56.9	4.9	112	210.9	387.3
1948	12.3	6.2	197	77	15.2	13.9	41.9	5.8	109	226.4	507.7
1949	12.8	6.6	193	80	15.2	15.8	46.0	7.3	96	240.9	528.6
1950	15.3	7.5	204	85	17.4	16.2	46.6	7.5	107	251.5	582.4
1951	13.1	5.4	243	87	14.4	11.8	49.7	5.9	122	268.3	740.5
1952	11.8	4.5	262	83	13.6	11.2	49.1	5.5	121	307.2	916.6
1953	10.9	3.8	283	80	12.8	10.1	58.3	5.9	127	340.5	1096.5
1954	12.4	4.7	262	81	14.6	8.5	55.1	4.7	172	361.8	1077.5
1955	11.8	4.8	248	82	13.8	6.6	60.0	3.9	211	388.4	1094.5
AVERAGES											
1935—1939	9.5	10.8	88	85	10.0	5.0	67.1	3.4	199		
1947—1955	12.1	5.1	235	82	14.1	10.3	51.9	5.3	137		
1947—1950	12.3	6.5	190	80	14.6	13.8	46.8	6.5	106		
1951—1955	12.0	4.6	260	82	13.9	9.0	54.8	4.9	154		

Table 28. PRODUCERS' GOODS—RAW MATERIALS AND SUPPLIES

[redacted]	TOTAL CAPITAL			COMMON [redacted] CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS [redacted] per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO [redacted] per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	3.9	8.0	42	73	3.5	3.9	60.2	2.3	91	94.5	74.7
1936	6.4	10.5	55	73	6.3	4.7	60.3	2.8	134	97.0	100.0
1937	8.1	11.4	66	72	8.4	6.2	62.0	3.8	137	100.3	124.2
1938	3.1	5.8	44	71	2.3	2.2	131.1	2.9	103	103.2	86.1
1939	6.1	9.7	58	71	6.5	5.9	56.0	3.3	109	105.0	115.0
1940	8.2	11.2	70	72	9.5	9.9	52.2	5.2	96	107.3	142.6
1941	9.4	9.2	99	74	11.3	13.2	47.6	6.3	85	110.3	206.6
1942	7.5	6.4	113	76	8.7	11.6	55.2	6.4	75	113.0	242.1
1943	6.9	5.3	126	77	7.5	9.2	59.6	5.5	82	115.3	273.3
1944	6.4	5.1	124	78	6.9	8.5	61.4	5.3	80	117.8	275.4
1945	4.6	4.0	111	79	4.6	4.7	89.7	4.2	99	118.3	246.6
1946	6.8	6.8	97	80	7.4	6.5	61.8	4.0	113	120.8	220.1
1947	11.4	9.0	124	79	13.4	13.4	43.2	5.8	100	130.4	305.1
1948	12.4	9.2	133	79	14.7	15.2	43.1	6.6	97	142.2	356.8
1949	10.4	9.0	116	79	12.1	14.0	49.0	6.8	86	151.1	331.6
1950	13.7	9.9	137	82	16.0	15.3	45.5	6.9	105	161.2	418.5
1951	11.7	7.6	149	82	13.5	10.9	50.7	5.5	123	176.1	497.4
1952	9.1	6.8	128	79	10.7	8.7	62.2	5.4	123	194.2	471.3
1953	9.8	7.1	136	77	11.8	10.3	54.2	5.6	114	209.2	542.9
1954	9.4	8.0	116	77	11.4	8.2	56.9	4.7	138	224.3	496.2
1955	12.7	9.4	133	78	15.5	8.7	47.9	4.1	180	244.5	618.3
AVERAGES											
1935—1939	5.5	9.3	53	72	5.4	4.7	66.0	3.1	115		
1947—1955	11.1	8.4	130	79	13.2	10.7	50.3	5.4	123		
1947—1950	12.0	9.3	127	80	14.1	14.5	45.2	6.6	97		
1951—1955	10.6	7.8	132	78	12.7	9.2	53.5	4.9	138		

Table 29. [redacted] TRADE

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD [redacted] cent	MARKET TO BOOK [redacted] cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	9.7	4.5	215	77	10.9	6.7	56.7	3.8	164	92.0	87.1
1936	12.0	5.1	[redacted]	[redacted]	13.5	6.9	82.2	5.7	196	95.7	98.7
1937	10.5	4.4	236	80	11.8	6.9	77.4	5.4	170	101.0	104.8
1938	8.7	4.0	218	80	9.6	7.1	73.3	5.2	135	104.0	100.0
1939	11.5	5.0	232	83	13.2	9.0	61.4	5.5	147	107.3	109.4
1940	10.0	4.2	239	81	11.3	8.6	69.5	5.9	132	112.0	118.0
1941	11.4	4.1	277	[redacted]	13.1	11.5	57.2	6.6	114	117.1	142.7
1942	9.6	3.3	292	81	11.0	11.7	60.0	7.0	94	122.6	157.4
1943	9.2	3.1	294	81	10.4	8.6	63.4	5.5	121	126.4	163.5
1944	9.1	2.9	314	82	10.2	7.3	63.2	4.6	140	129.4	178.8
1945	9.5	2.9	324	[redacted]	10.5	5.6	61.2	3.4	189	133.0	189.9
1946	20.0	5.0	397	85	22.8	10.7	42.6	4.6	213	144.9	253.0
1947	16.8	4.1	409	86	19.0	12.4	45.9	5.7	152	164.2	294.9
1948	17.6	4.4	401	85	20.0	14.7	42.6	6.3	136	184.8	325.8
1949	13.5	3.8	351	85	15.2	11.8	51.4	6.1	128	202.7	313.0
1950	14.7	4.1	355	86	16.6	12.1	48.8	5.9	137	218.9	342.0
1951	10.0	2.9	344	82	11.6	8.1	64.1	5.2	144	242.9	366.7
1952	9.6	2.9	336	80	11.4	8.5	63.1	5.3	135	263.3	388.5
1953	9.1	2.8	327	80	10.8	8.2	64.9	5.3	132	275.8	396.2
1954	9.8	3.1	313	80	11.7	8.3	59.0	4.9	141	290.1	398.6
1955	10.1	3.2	319	79	12.1	7.2	56.5	4.1	168	308.3	432.8
AVERAGES											
1935—1939	10.5	4.6	227	79	11.8	7.3	70.4	5.2	161		
1947—1955	11.8	3.4	345	[redacted]	13.8	9.7	54.5	5.3	142		
1947—1950	15.5	4.1	377	85	17.5	12.7	47.0	6.0	138		
1951—1955	9.7	3.0	327	80	11.5	8.0	61.2	4.9	144		

Table 30. BUILDING MATERIALS INDUSTRY

	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
YEAR	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	6.4	9.4	69	86	6.6	4.2	103.0	4.4	154	91.8	71.0
1936	9.9	10.6	93	85	10.6	4.3	73.8	3.1	248	93.3	98.2
1937	9.8	9.5	102	83	10.6	4.8	65.8	3.1	222	99.5	115.5
1938	4.8	5.8	82	83	4.6	2.7	60.7	1.6	171	106.7	99.1
1939	6.6	7.0	94	82	6.8	3.9	101.2	3.9	177	108.5	116.3
1940	10.9	10.2	108	82	12.1	9.4	53.2	5.0	130	111.9	136.7
1941	13.3	9.3	142	83	15.0	14.5	42.4	6.2	103	118.9	192.1
1942	11.1	7.6	145	84	12.2	12.9	31.5	4.1	95	126.9	208.6
1943	8.2	6.2	132	85	8.9	7.6	40.7	3.1	116	134.8	202.8
1944	5.7	4.4	131	85	6.0	4.5	64.0	2.9	136	140.1	208.3
1945	6.2	5.3	117	82	6.8	3.9	59.5	2.3	172	151.7	202.4
1946	12.2	9.6	127	81	14.2	7.4	35.4	2.6	191	175.6	252.6
1947	15.1	10.5	143	83	17.4	11.4	35.8	4.1	152	212.4	345.4
1948	17.5	11.6	151	83	20.2	15.4	37.0	5.7	131	254.0	434.9
1949	13.8	11.2	124	84	15.7	13.8	56.1	7.7	114	279.9	392.9
1950	17.5	12.1	145	87	19.8	16.8	50.3	8.5	117	300.0	493.2
1951	13.8	9.2	150	88	15.2	12.5	55.4	6.9	121	324.4	551.0
1952	12.2	8.7	141	88	13.4	10.8	59.8	6.4	124	349.3	558.0
1953	11.3	8.0	141	88	12.3	10.8	60.9	6.5	114	373.1	599.2
1954	13.1	9.4	140	88	14.5	9.7	57.2	5.6	149	395.8	631.4
1955	15.1	10.3	147	90	16.5	8.7	49.6	4.3	189	430.9	719.1
AVERAGES											
1935—1939	7.4	8.3	89	84	7.7	4.0	79.7	3.2	194		
1947—1955	14.2	10.0	142	87	15.8	11.5	51.7	6.0	137		
1947—1950	16.0	11.4	140	85	18.3	14.4	45.4	6.6	127		
1951—1955	13.2	9.2	144	88	14.4	10.2	55.9	5.7	142		

Chapter 6

COMMENTS ON CONSUMERS' DURABLE GOODS GROUP

INDUSTRIES

It may be seen from Table 31 that three industries—Automobiles, Automobile Parts & Accessories, and Radio & Television—are in the Consumers' Durable Goods Group and that the Automobile Industry constitutes the major portion of the Group in terms of both total capital (79%) and sales (82%). In fact, Automobiles' weight is so overwhelming that the composite series for the Group closely parallel those for the Industry.

The reader may wonder at the absence of the Ford Motor Company from the Automobile Industry Sample. However, since Ford Motor Company's stock was not publicly held until 1956, two companies—General Motors and Chrysler—accounted for more than 75% of the sales and net worth of automobile manufacturers listed on the New York Stock Exchange in 1950. Moreover, in 1950 the automobiles of these two companies represented about 63% of the total passenger car registrations in the United States. Approximately this proportion has existed over the entire period under review. Because of the heavy weighting of General Motors it dominates the averages of the two companies.

The Radio Corporation of America is not included in the Radio & Television Industry composite data. It was excluded because during the years 1935–42, the Corporation's "B" Preferred $5 Dividend Stock was carried at the stated value of approximately $21 per share instead of the liquidating value of $100 per share and for the years 1936–55 the $3.50 Cumulative Convertible First Preferred was carried at approximately $16 per share instead of the liquidating value of $100 per share. Taking the two preferred issues at their liquidating values, common stock had deficit book value in eight of the nine years from 1935 through 1943.

Table 31. CONSUMERS' DURABLE GOODS GROUP

Total Capital and Net Sales by Industries and Companies
1955

Industry and Company	Total Capital		Net Sales	
	Company	Industry	Company	Industry
	(millions)		(millions)	
Automobile				
General Motors Corp.	$4,196.1		$12,443.3	
Chrysler Corp.	702.5		3,466.2	
Total		$4,898.6		$15,909.5
Per cent of Group		(79.3%)		(81.5%)
Automobile Parts & Accessories				
Borg-Warner Corp.	$ 214.5		$ 552.2	
Bendix Aviation Corp.	157.9		567.2	
Electric Auto-Lite Co.	133.8		296.0	
Rockwell Spring & Axle Co.	99.2		271.9	
Thompson Products, Inc.	95.9		286.2	
Dana Corp.	77.1		186.6	
Eaton Manufacturing Co.	69.3		218.1	
Stewart-Warner Corp.	44.9		113.8	
Total		892.6		2,492.0
Per cent of Group		(14.5%)		(12.8%)
Radio & Television				
Sylvania Electric Products, Inc.	$ 151.5		$ 307.4	
Philco Corp.	102.6		373.4	
Admiral Corp.	70.8		202.4	
Motorola, Inc.	61.1		226.7	
Total		386.0		1,109.9
Per cent of Group		(6.2%)		(5.7%)
Group Total		$ 6,177.2		$19,511.4

Twenty-four companies included in the S.E.C. classification "Parts and Accessories—Motor Vehicles" were listed on the New York Stock Exchange as of December 31, 1950. Because one of these companies is primarily a manufacturer of glass for building and commercial users as well as the automotive industry, it was excluded at the outset.

Doehler-Jarvis Corporation was dropped from the sample beginning in 1952. Although it was not until February 1953 that it was merged with a firm not included in the sample (National Lead Company), financial statements are not available for 1952. In 1953 Standard Steel Spring Company and Timken-Detroit Axle Company, both of which are included in the sample, consolidated to form Rockwell Spring & Axle Company.

EARNING POWER

Earnings Rates on Total Capital

Period Comparison. In terms of their earnings levels in both the postwar and prewar periods, Automobiles far exceeded the other two industries. Furthermore, Automobiles had higher earnings rates in both 1947–50 and 1951–55 than in 1935–39 whereas Automobile Parts & Accessories and Radio & Television had higher rates only in 1947–50. In the single year 1955, both Automobiles and Automobile Parts & Accessories had rates well above 1935–39. In contrast, Radio & Television's 1955 rate was substantially below the prewar average.

Industry	Earnings Rates on Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Automobiles	21.9%	28.2%	24.0%	20.5%	26.3%
Automobile Parts & Accessories	13.7	18.4	15.4	13.9	15.9
Radio & Television	11.7	22.9	14.5	14.1	9.8
Group	19.9	26.2	22.0	19.7	23.8

Below are set forth for each industry the percentage changes in earnings rates from 1935–39 to the postwar periods.

Industry	Percentage Change from 1935–39 Average			
	1951–55	1947–50	1947–55	1955
Automobiles	+ 7%	+38%	+17%	+28%
Automobile Parts & Accessories	− 1	+32	+11	+14
Radio & Television	−17	+62	+ 3	−30

Two additional facts are brought out by the above comparisons. (1) While Radio & Television had by far the most improvement in the 1947–50 span, its decline in the following periods was also the most pronounced. (2) The Automobile Industry, which had the highest earnings rate in each period, also showed the most improvement in 1951–55 and 1955.

Trends. It is clear from both Chart 18 and the period averages that no pronounced trend existed in the earnings rate on total capital of any industry. This fact was confirmed by mathematically measuring the trend of each group over the twenty-one-year span.

Stability. As may be seen from Chart 18, the earnings rates on total capital for the industries in the Consumers' Durable Goods Group are characterized by substantial fluctuations. Measured in terms of annual deviations from trend, the earnings instability of these three industries is closely comparable and is exceeded only by that of four of the thirty-three industries covered by the study—Distilling, Meat Packing, Textile Fabrics, and Aircraft.

Profit Margins

The profit margins of the three industries also have wide annual and cyclical fluctuations over the twenty-one year span (Chart 19). Each of the industries experienced two broad movements in their profit margins: first, the high margins which existed in 1935 and 1936 were followed by a general decline to the end of the war and, second, in the postwar years a recovery of varying degrees took place. However, in no instance did the postwar recovery carry the profit margins of the industries back to their early prewar levels.

Chart 18. CONSUMERS' DURABLE GOODS

Earnings Rates on Total Capital by Industries
1935–1955

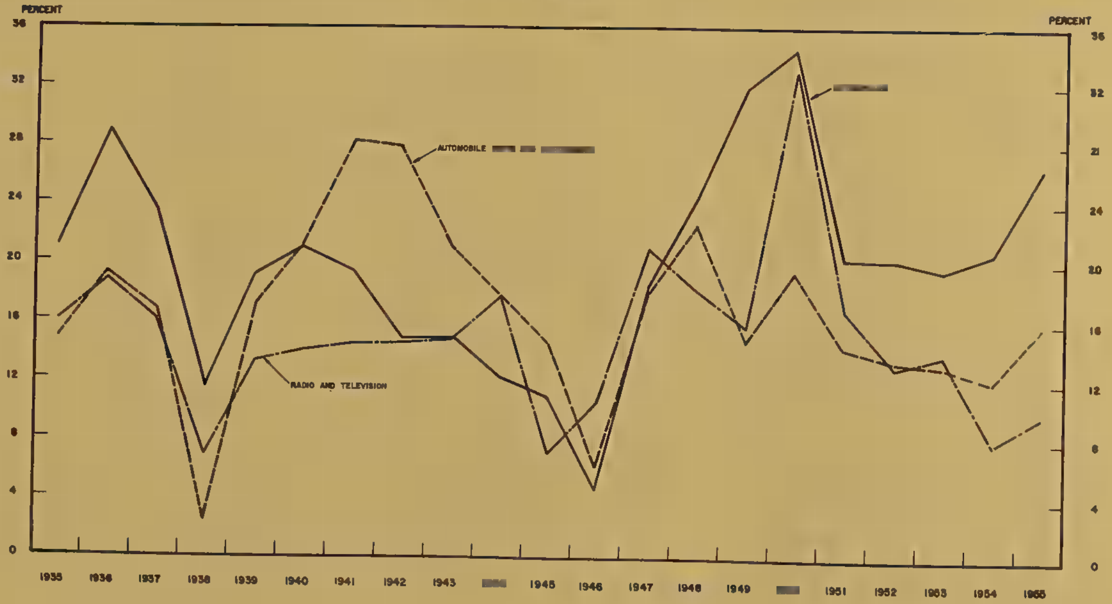
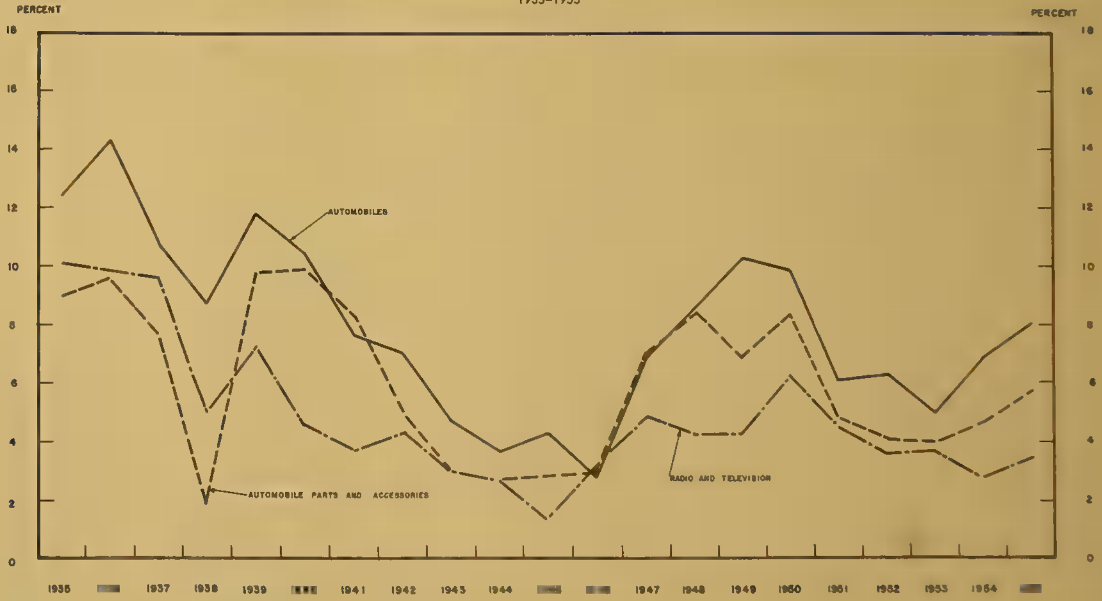


Chart 19. CONSUMERS' DURABLE GOODS

Earnings Available Total Capital to Sales by Industries
1935–1955



Industry	Profit Margins				
	1951–55	1947–50	1947–55	1935–39	1955
Automobiles	6.6%	9.2%	7.4%	11.7%	8.1%
Automobile Parts & Accessories	4.7	7.7	5.6	7.9	5.7
Radio & Television	3.6	5.1	4.1	8.4	3.4
Group	6.1	8.6	6.9	11.2	7.5

The foregoing period averages amplify the facts indicated by the graphed data. Comparing 1951–55 and 1935–39 figures, Radio & Television's profit margin declined by 57%, Automobiles' by 44%, and Automobile Parts & Accessories' by 41%. In other words, over the last five years the profit margin for each industry was narrowed to about one-half of its 1935–39 level. In 1955 the margins for the Automobile and Automobile Parts & Accessories industries were well above their 1951–55 averages but still considerably below those for 1935–39. Radio & Television, however, showed a further decline in 1955.

Capital Turnover

Period Comparison. In contrast to the marked downward drift of profit margins, it may be seen from both Chart 20 and the following tabulation that capital turnover has risen substantially.

Industry	Sales to Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Automobiles	333%	307%	324%	175%	325%
Radio & Television	328	447	358	168	288
Automobile Parts & Accessories	293	239	274	176	279
Group	326	301	318	175	316

Using as a basis of comparison 1951–55 and 1935–39, capital turnover for the Automobile and Radio & Television industries nearly doubled and that for Automobile Parts & Accessories increased by about two-thirds.

In 1947–50 Radio & Television was the "star" performer but had a substantial decline in 1951–55, whereas in 1951–55 Automobiles and Automobile Parts & Accessories had higher capital turnover than in 1947–50. In 1955 all industries were below their 1951–55 levels.

In terms of annual capital turnover figures (Chart 20), it will be seen that Automobile Parts & Accessories and Radio & Television had the much wider fluctuations. In the postwar period both Automobiles and Automobile Parts & Accessories experienced a rather steady upward trend whereas Radio & Television had a general decline. It is interesting to note that, starting from closely comparable positions in 1935–39, the sales to total capital ratios for the industries diverged substantially during many of the subsequent years until 1951, when they again drew fairly closely together.

Growth in Sales and Total Capital. A helpful corollary to an examination of capital turnover is a brief consideration of the increase in sales and total capital since the prewar period. Table 32 consists of indexes (1935–39 equals 100) for both series.

Table 32. CONSUMERS' DURABLE GOODS GROUP

Comparative Industry Performance
Indexes of Sales and Total Capital
Selected Periods

Industry	1951–55	1947–50	1935–39	1955
	Index of Sales			
Radio & Television	1860.5	1055.4	100.0	2005.1
Automobile Parts & Accessories	914.6	505.4	100.0	1005.1
Automobiles	641.5	378.6	100.0	832.1
	Index of Total Capital			
Radio & Television	1479.0	616.2	100.0	1820.6
Automobile Parts & Accessories	553.0	373.2	100.0	639.0
Automobiles	337.8	215.7	100.0	448.6

All three of the industries showed substantial increases in both sales and capital; nevertheless, Radio & Television far outstripped the other two. In fact, Radio & Television's relative sales increase was more than

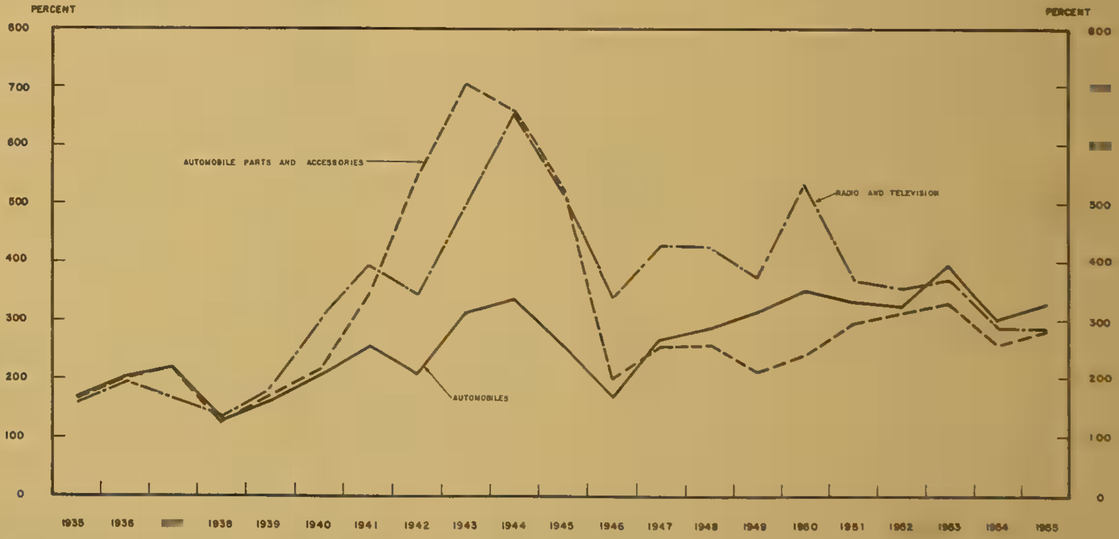


Chart 20. CONSUMERS' DURABLE GOODS

Sales to Total Capital by Industries
1935–1955

double that for Automobile Parts & Accessories and was nearly three times that for Automobiles. The differences in relative increases in total capital were even greater at the end of the period of review.

Although Automobiles had considerably less sales growth than the other two industries in the group, it should be pointed out that its average 1951–55 sales index stood ninth among all thirty-three industries. Radio & Television ranked second and Automobile Parts & Accessories third. (See Table 10, Chapter 4). The industries as a Group were exceeded only by Producers' Capital Goods.

In terms of relative capital growth, among all the industries in 1951–55 Radio & Television ranked first and Automobile Parts & Accessories and Automobiles sixth and twelfth, respectively.

Earnings Rates on Common-Stock Capital

Common Stock as a Percentage of Total Capital. Although in 1951–55 the three industries had somewhat a higher percentage of their total capital in common stock than in 1935–39, the only pronounced change was Radio & Television's increase from 61% to 73%. In spite of this fact, Radio & Television still had a considerably lower percentage of common stock capital in 1951–55 than the other two.

Industry		Common Stock Per Cent of Total Capital			
	1951–55	1947–50	1947–55	1935–39	1955
Automobiles	89%	85%	88%	83%	86%
Automobile Parts & Accessories	89	86	[illegible]	88	91
Radio & Television	73	73	73	61	73
Group	88	84	87	83	86

Comparative Return on Common and on Total Capital. The comparative earnings rates on common-stock capital and on total capital are set forth for each industry by periods in Table 33. Note that, because of the considerably higher common-stock proportions, the difference between the earnings rates on the two bases was significantly less for Automobiles and Automobile Parts & Accessories than for Radio & Television. As a result of the additional leverage, Radio and Television's earnings rate on common stock over the 1947–55 period exceeded that for Automobile Parts & Accessories (Chart 21), although its earnings rate on total capital was below the latter's. For the same reason, Radio & Television was able to earn in 1951–55 a return on common stock nearly identical to that for Automobile Parts & Accessories, even though the respective earnings rates on total capital were 11.7% and 13.7%.

Summary

Six primary facts were developed by this examination of the earning power of the three industries in the Consumers' Durable Goods Group. (1) No pronounced trend existed in the earnings rate on total capital for any of the industries. (2) Although profit margins were substantially lower, the earnings rates on total capital for both Automobiles and Automobile Parts & Accessories in 1951–55 were maintained at approximately their 1935–39 levels due to turning over their capital nearly twice as fast as in 1935–39. (3) As a result of a particularly severe decline in the profit margin which more than offset the improvement in capital turnover, the Radio & Television Industry suffered in 1951–55 a decline in earning power which brought it below the 1935–39 level. (4) The Consumers' Durable Goods Group was characterized by outstanding postwar sales and capital expansion. (5) Radio & Television, which increased its equity capital, had the only pronounced change in common-stock proportions. (6) In spite of the increased common-stock proportions, Radio & Television's leverage remained sufficiently high to result in a significant difference between the earnings rates on common stock capital and on total capital. For the other two industries, the differences were nominal.

MARKET VALUATION

Earnings-Price Ratios

The earnings-price ratios of these industries were also characterized by their wide fluctuations and, at points, by their considerable divergence (Chart 22). For example, although the earnings-price ratios for the three were at their prewar lows (highest multipliers) in the same year

Table 33. COMPARATIVE INDUSTRY PERFORMANCE

Earnings Rates on Common Stock and Total Capital for Selected Periods
Industries Ranked According to 1951–55 Average

Industry	1951–55		1947–50		1947–55		1935–39		1955	
	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital
Automobiles	24.1%	21.9%	32.6%	28.2%	26.9%	24.0%	23.8%	20.5%	30.1%	26.3%
Automobile Parts & Accessories	15.1	13.7	20.9	18.4	17.1	15.4	15.3	13.9	17.2	15.9
Radio & Television	15.0	11.7	30.0	22.9	18.8	14.5	20.2	14.1	12.4	9.8
Group	22.1	19.9	30.4	26.2	24.8	22.0	22.7	19.7	27.2	23.8

(1938), in no subsequent period did they have a common turning point. In fact, the earnings-price ratio for each industry was at its postwar high (lowest multiplier) in a different year: Automobile Parts & Accessories 1948, Automobiles 1949, and Radio & Television 1950.

Industry	Earnings-Price Ratios					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Radio & Television	10.2%	22.1%	13.0%	12.2%	9.9%	8.1%
Automobiles	10.7	18.7	12.9	11.0	8.7	10.3
Automobile Parts & Accessories	12.5	19.4	14.7	13.7	8.7	11.9
Group	10.9	18.8	13.1	11.4	8.7	10.4

The wide fluctuations in the earnings-price ratios may also be seen from the preceding comparison by periods. It is interesting to note that the earnings yields for Automobiles and Automobile Parts & Accessories were identical in 1935–39 and below those for Radio & Television. However, in 1951–55 Radio & Television was below the others and only slightly above its 1935–39 level. In 1955 the change was even more pronounced, with Radio & Television having an earnings yield well below even its 1935–39 average. In contrast, although Automobile Parts & Accessories had the same capitalization rate as Automobiles in 1935–39, in each subsequent period and for the entire twenty-one-year span its earnings yield was higher (multiplier lower).

Using as a measure of improvement in market valuation the percentage relationship of each industry's 1951–55 earnings-price ratio to its 1935–55 average, Radio & Television had the largest gain and was followed by Automobile Parts & Accessories and, in turn, Automobiles.

Payout Rates

Linking earnings-price ratios and dividend yields is the payout rate. As shown by the tabulation below, Automobiles consistently paid out a higher percentage of earnings than the other two industries. Although Automobile Parts & Accessories and Radio & Television from time to time changed places, in the postwar period Radio & Television had the lowest payout rate in every year except 1954 and 1955.

Industry	Per cent of Earnings Paid Out in Dividends					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Automobiles	58.7%	53.8%	56.7%	61.4%	74.6%	49.3%
Automobile Parts & Accessories	49.6	43.1	46.8	47.6	57.9	45.4
Radio & Television	44.4	27.5	37.6	39.0	64.7	48.9
Group	57.1	51.4	55.9	58.9	73.2	48.9

Chart 21. CONSUMERS' DURABLE GOODS

Earnings Rates [redacted] Common Stock Capital by Industries
1935–1955

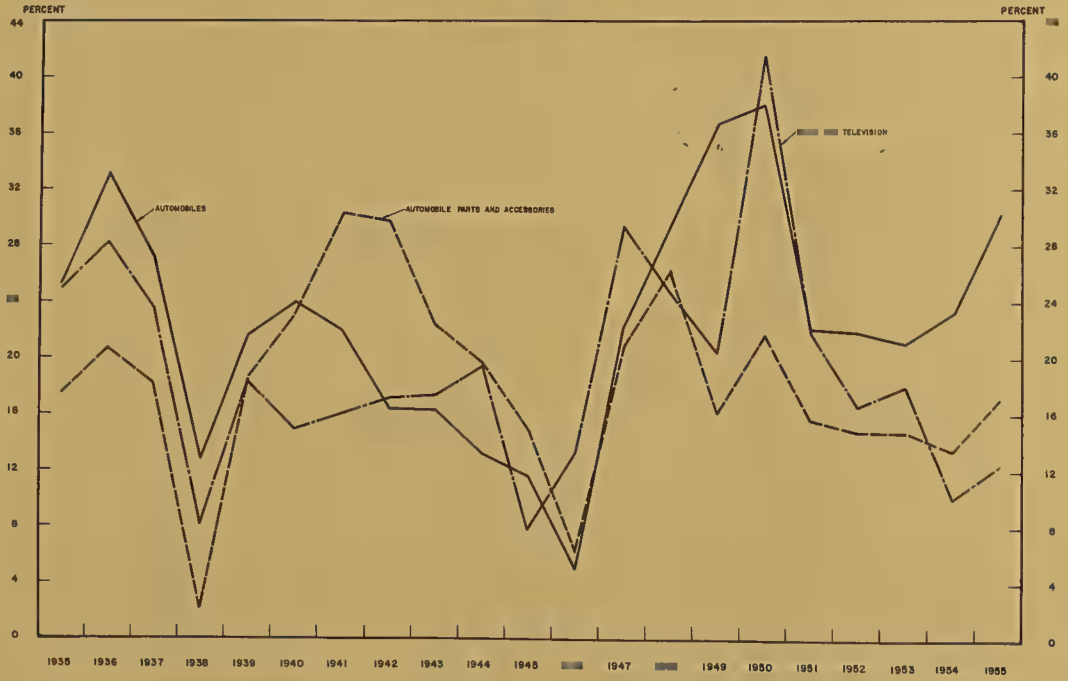
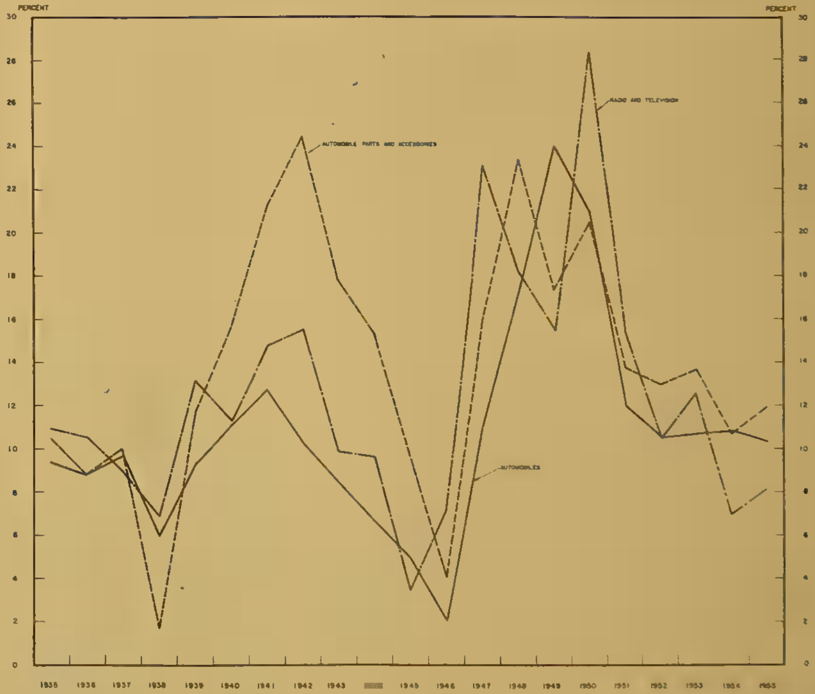


Chart 22. CONSUMERS' DURABLE GOODS

Earnings-Price Ratios by Industries
1935–1955



The payout rates for all three industries were lower in the postwar periods than in 1935–39. Radio & Television had the greatest postwar changes in the percentage of earnings paid out to stockholders. In contrast, Automobile Parts & Accessories held the most closely to its prewar payout level. Automobiles came in between.

Dividend Yields

As in the case of earnings-price ratios, the dividend yields for the three industries at times have diverged substantially. The dividend yield for Automobiles (Chart 23) clearly has had the widest swings; also the yield for Radio & Television since 1947 has been substantially below the yields for the other two industries.

Industry	Dividend Yields					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Radio & Television	4.5%	6.1%	4.9%	4.8%	6.4%	3.9%
Automobile Parts & Accessories	6.2	8.4	6.9	6.5	5.0	5.4
Automobiles	6.3	10.0	7.3	6.8	6.5	5.1
Group	6.2	9.7	7.2	6.7	6.4	5.1

The foregoing emphasizes the facts already referred to in connection with Chart 23. Insofar as the period comparison is concerned, the widest divergence between the industries was in 1947–50 and the narrowest in 1955. In every postwar period Radio & Television had by far the lowest yield. Although the dividend yield for Automobiles on a period basis was higher than that for Automobile Parts & Accessories, a comparison of the annual data shows that the yields intertwined throughout the prewar and postwar periods.

In relation to their 1935–55 average yields, the three industries showed roughly equal market improvement in 1951–55. A comparable examination for 1955 reveals significant further gains for all three; however, Automobiles held a distinct edge over the other two. Note that in 1955 Radio & Television and Automobiles were also selling at levels substantially below their 1935–39 averages.

Market Value to Book Value

The relation of market value to book value of common stock capital for all three of the industries in the group had a downward trend over much of the 1935–55 period (Chart 24). Comparing 1951–55 to 1935–39, all three industries were lower, with Automobile Parts & Accessories and Radio & Television being off more than Automobiles. Over the entire span, the three industries for the most part retained the same relative positions—Automobiles was the highest followed by Radio & Television and then by Automobile Parts & Accessories. Although in 1955 only Automobiles had a market-to-book ratio above 1935–39, all of the industries had ratios well above their 1935–55 averages.

Industry	Market Value to Book Value					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Automobiles	224%	175%	208%	214%	272%	292%
Radio & Television	148	136	145	127	205	154
Automobile Parts & Accessories	121	108	117	127	175	144
Group	203	161	189	198	260	262

Summary

Five points have been brought out by the foregoing analysis of the market valuation of the three industries. (1) Their earnings-price ratios are characterized by wide fluctuations and frequent divergence. However, throughout the postwar period the earnings-price ratios for Automobiles and Automobile Parts & Accessories were above their 1935–39 levels, whereas in the last two years those for Radio & Television were below their 1935–39 average. (2) Nevertheless, based on the relationship of each industry's 1951–55 earnings-price ratio to its 1935–55 average, the market improvement of the three industries was nearly identical. (3) Automobiles had the highest and most consistent payout rate while Radio & Television had the widest fluctuations. (4) Radio & Television's dividend yield was by far the lowest in the Group since 1947. (5) The market-to-book ratio for Automobiles was the highest throughout nearly all of the twenty-one-year span, whereas that for Automobile Parts & Accessories was the lowest for most of the span.

Chart 23. CONSUMERS' DURABLE GOODS

Dividend Yields by Industries
1935–1955

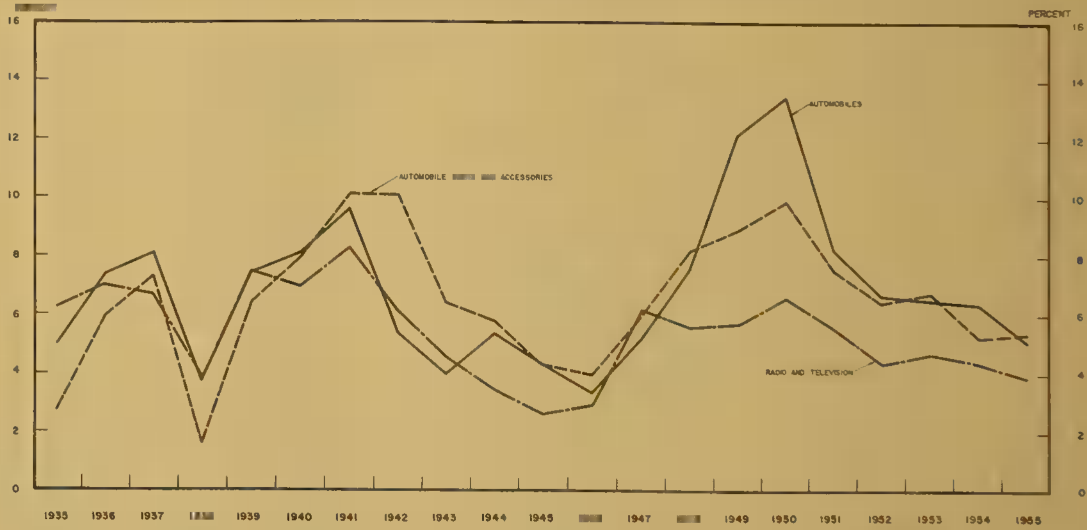


Chart 24. CONSUMERS' DURABLE GOODS

Market Value to Book Value by Industries
1935–1955

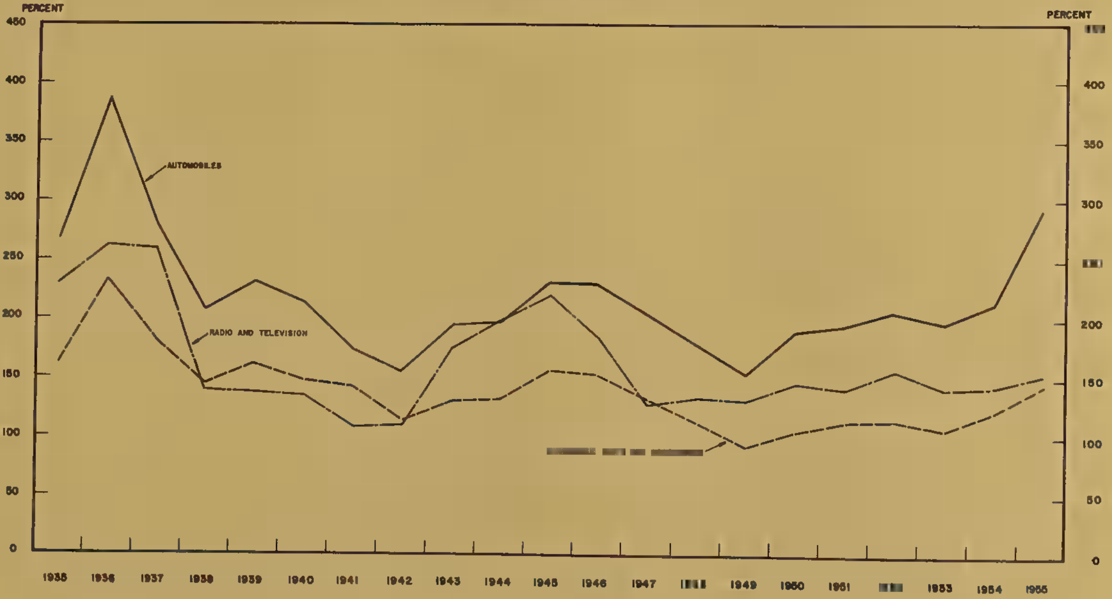


Table 34. AUTOMOBILE INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	[redacted] RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS [redacted] per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	21.0	12.4	170	79	25.3	9.4	53.2	5.0	269	90.4	87.5
1936	28.9	14.3	202	82	34.1	8.8	83.9	7.4	387	95.6	110.2
1937	23.4	10.7	218	83	27.1	9.7	83.0	8.1	279	100.1	124.3
1938	11.3	8.7	130	84	12.5	6.0	61.3	3.7	208	104.6	77.4
1939	19.1	11.8	162	84	21.6	9.3	79.5	7.4	233	109.0	100.8
1940	21.1	10.4	203	85	23.9	11.1	72.9	8.1	216	114.5	132.8
1941	19.5	7.7	253	86	21.9	12.8	76.3	9.7	171	120.4	173.9
1942	14.8	7.1	207	87	16.3	10.3	52.1	5.4	158	127.0	150.3
1943	14.9	4.8	311	[redacted]	16.3	8.5	46.7	4.0	192	137.8	244.9
1944	12.3	3.7	334	[redacted]	13.2	6.7	77.4	5.2	196	146.9	280.3
1945	10.9	4.3	256	[redacted]	11.6	5.0	87.5	4.4	234	147.7	215.6
1946	4.7	2.8	166	83	4.9	2.1	163.0	3.4	233	156.6	148.1
1947	18.3	6.8	268	79	22.2	11.0	46.5	5.1	202	176.9	270.8
1948	24.5	8.6	285	81	29.3	17.2	44.3	7.6	171	201.6	327.9
1949	32.0	10.3	312	86	36.6	24.1	50.5	12.2	151	228.8	407.2
1950	34.5	9.9	349	90	37.9	20.9	64.4	13.5	181	255.3	508.5
1951	20.3	6.1	332	91	22.0	12.0	69.2	8.3	183	276.4	523.6
1952	20.2	6.3	322	91	21.8	10.5	64.2	6.7	207	289.2	530.9
1953	19.6	5.0	393	92	21.0	10.7	61.4	6.6	196	311.4	699.6
1954	20.8	6.9	300	[redacted]	23.1	10.8	58.9	6.4	213	363.2	622.1
1955	26.3	8.1	325	86	30.1	10.3	49.3	5.1	292	448.6	832.1
AVERAGES											
1935—1939	20.5	11.7	175	83	23.8	8.7	74.6	6.5	272		
1947—1955	24.0	7.4	324	[redacted]	26.9	12.9	56.7	7.3	208		
1947—1950	28.2	9.2	307	85	32.6	18.7	53.8	10.0	175		
1951—1955	21.9	6.6	333	89	24.1	10.7	58.7	6.3	224		

Table 35. AUTOMOBILE PARTS AND ACCESSORIES INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	[redacted] TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	14.9	9.0	166	86	17.5	10.5	25.6	2.7	167	88.6	83.2
1936	19.1	9.6	199	90	20.6	8.8	66.4	5.9	233	94.6	106.5
1937	16.9	7.7	219	90	18.1	10.0	73.0	7.3	180	100.9	125.0
1938	2.4	1.9	128	88	2.3	1.7	93.8	1.6	142	106.2	77.2
1939	17.0	9.8	173	88	18.6	11.7	55.3	6.4	160	110.1	108.0
1940	21.3	9.9	216	91	23.1	15.7	53.4	8.4	147	116.5	142.7
1941	28.3	8.3	341	90	31.0	21.7	46.7	10.1	143	131.6	254.5
1942	27.9	5.1	544	91	30.5	25.1	40.2	10.1	122	154.9	478.1
1943	21.1	3.0	706	91	22.6	18.0	35.5	6.4	126	182.1	728.9
1944	17.8	2.7	662	92	19.1	14.9	38.6	5.8	128	207.5	779.4
1945	14.5	2.8	524	96	15.0	9.6	46.3	4.4	156	223.4	663.7
1946	5.9	3.0	196	90	6.3	4.1	97.2	4.0	154	256.9	285.0
1947	17.6	7.0	252	85	20.3	15.9	37.9	6.0	127	306.7	438.6
1948	21.6	8.4	258	85	24.9	22.2	37.0	8.2	112	354.7	518.1
1949	14.5	6.9	211	86	15.9	17.5	51.2	8.9	92	397.4	475.5
1950	19.9	8.3	240	[redacted]	22.3	21.2	46.8	9.9	105	434.1	589.2
1951	14.1	4.8	292	89	15.6	13.8	55.1	7.6	113	470.1	776.3
1952	13.2	4.2	313	87	14.8	12.9	50.1	6.5	114	516.0	908.8
1953	13.1	4.0	330	88	14.7	13.7	49.2	6.8	107	555.2	1032.2
1954	12.1	4.7	258	90	13.2	10.7	49.9	5.3	123	584.7	850.3
1955	15.9	5.7	279	91	17.2	11.9	45.4	5.4	144	639.0	1005.5
AVERAGES											
1935—1939	13.9	7.9	176	88	15.3	8.7	57.9	5.0	175		
1947—1955	15.4	5.6	274	88	17.1	14.7	46.8	6.9	117		
1947—1950	18.4	7.7	239	86	20.9	19.4	43.1	8.4	108		
1951—1955	13.7	4.7	293	89	15.1	12.5	49.6	6.2	121		

Table 36. RADIO AND TELEVISION INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	[redacted] TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL [redacted] SALES index
1935	16.0	10.1	158	56	25.0	10.9	57.1	6.3	229	90.0	84.9
1936	18.9	9.8	192	60	28.1	10.5	66.7	7.0	269	95.6	109.7
1937	16.1	9.6	168	61	23.5	8.9	75.0	6.7	265	101.1	101.1
1938	6.9	5.0	138	62	8.3	5.9	66.7	3.9	142	104.4	86.0
1939	13.3	7.3	183	63	18.4	13.2	57.1	7.5	139	108.3	118.3
1940	14.0	4.6	300	88	14.9	11.3	62.1	7.0	132	122.8	154.8
1941	14.5	3.7	394	86	16.0	14.8	55.9	8.3	108	137.2	220.7
1942	14.6	4.3	343	82	17.1	15.5	39.0	6.1	110	162.2	233.9
1943	14.8	3.0	496	84	17.3	9.9	46.2	4.6	175	197.2	410.5
1944	17.8	2.7	652	91	19.3	9.8	36.3	3.5	197	237.8	590.4
1945	7.1	1.4	518	87	7.8	3.5	77.8	2.7	223	279.4	550.4
1946	10.8	3.2	337	74	13.2	7.2	42.5	3.0	185	350.0	452.2
1947	21.1	4.9	428	68	29.3	23.1	26.8	6.2	127	458.9	753.2
1948	18.2	4.3	425	71	24.6	18.2	30.6	5.6	135	558.3	909.6
1949	15.8	4.3	371	74	20.3	15.5	36.7	5.7	131	649.4	923.5
1950	32.9	6.2	535	78	41.4	28.4	23.1	6.6	146	798.3	1635.5
1951	16.8	4.5	370	75	21.6	15.4	36.3	5.6	140	1057.2	1498.4
1952	13.0	3.6	356	73	16.5	10.4	42.5	4.4	159	1273.3	1736.9
1953	13.8	3.7	371	72	17.9	12.6	37.3	4.7	141	1517.8	2154.7
1954	8.0	2.8	288	72	10.1	7.0	62.8	4.4	143	1726.3	1907.2
1955	9.8	3.4	288	73	12.4	8.1	48.9	3.9	154	1820.6	2005.1
AVERAGES											
1935—1939	14.1	8.4	168	61	20.2	9.9	64.7	6.4	205		
1947—1955	14.5	4.1	358	73	18.8	13.0	37.6	4.9	145		
1947—1950	22.9	5.1	447	73	30.0	22.1	27.5	6.1	136		
1951—1955	11.7	3.6	328	73	15.0	10.2	44.4	4.5	148		

Chapter 7

COMMENTS ON CONSUMERS' NONDURABLE GOODS GROUP

INDUSTRIES

Thirteen of the manufacturing industries were classified in the "Consumers' Nondurable Goods Group." The relative weights of the industries in terms of average total capital and sales together with the companies presently comprising each industry are shown in Table 37.

In 1955 the entire group consisted of a total of 57 companies. During most of the period, the group contained two additional companies—E. R. Squibb & Sons and Pacific Mills. The former was dropped in 1953 from the Ethical Drug Industry sample because of its merger with Mathieson Chemical Corporation. The latter was excluded in 1955 from the Textile Fabric Industry sample, because, after Burlington Industries, Inc., acquired control, Pacific Mills' operations were consolidated in Burlington's 1955 statements.

As indicated by the following, the composition of the industries represent some modification of the basic sampling procedure. The S.E.C. *Survey of American Listed Corporations* classified thirteen drug companies under the single heading "Drugs and Medicines." One of these was primarily a retail drug chain rather than a manufacturer and therefore was excluded from the classification before choosing the sample of companies. Of the remaining, seven were selected to represent the "Drugs and Medicines" Industry. The seven companies were then subclassified as to whether they were primarily ethical or proprietary drug companies.

The sampling procedure resulted in the selection of three companies in the S.E.C. classification "Grocery Specialties and Miscellaneous Food Products." Two of these—General Foods Corporation and Standard Brands, Inc.—were distinctive from the third—Corn Products Refining Company. Accordingly, the S.E.C. classification was subdivided into "Packaged Foods" and "Corn Products" with Penick & Ford, Ltd., being added to the latter.

The original sample for Textile Fabrics contained six primarily cotton textile manufacturers and a single large woolen manufacturer. To achieve greater homogeneity, the woolen company was excluded.

Because of the overwhelming weight of the Oil Industry (66% of sales and 45% of capital), it has been excluded from the group average for the various series which were charted. With Oil excluded, the range for the industries is reduced considerably. For example, in 1955 the relative total capital ranged from nearly 21% for Rubber to 2% for Corn Products and in terms of sales from 24% for Meat Packing to a little less than 2% for Corn Products.

EARNING POWER

Earning Rates on Total Capital

Period Comparison. As will be observed from Chart 25 and the following tabulation, the differences in the performances of the industries in this group are more striking than the similarities. Although there was some drawing together in the more recent years, wide differences prevailed in all periods. In 1935–39 the range was from 4.1% for Meat Packing to 31.1% for Proprietary Drugs. The return for the top four industries (nearly 22%) averaged better than four times the rate of return for the lowest four (about 5%). In 1951–55 the range was between 3.8% and 16.6% with Meat Packing and Proprietary Drugs at the two extremes. However, in this period the average rate for the top four industries (nearly 14%) was only slightly more than twice that of the lowest four (over 6%).

Table 37. CONSUMERS' [redacted] GOODS GROUP

Total Capital and Net Sales by Industries and Companies

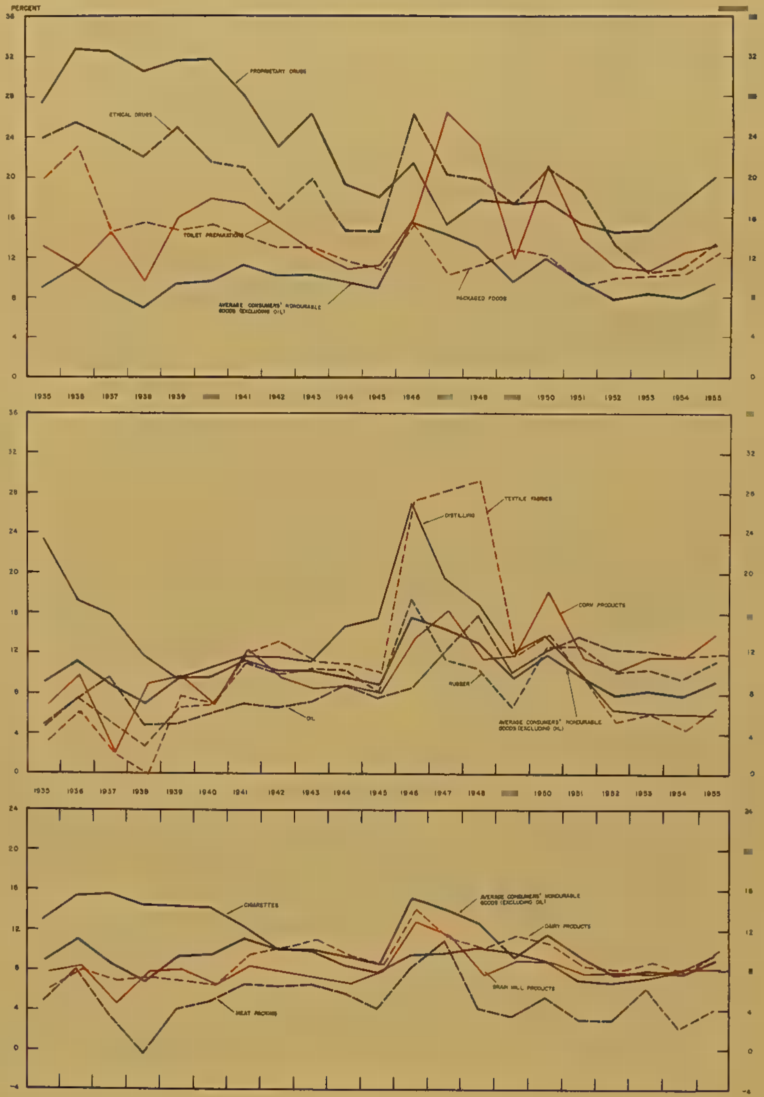
1955

Industry and Company	Total Capital		Net Sales	
	Company	Industry	Company	Industry
	(millions)		(millions)	
Oil				
Standard Oil Co. (New Jersey)	$5,659.9		$6,272.4	
Standard Oil Co. (Indiana)	2,038.6		1,781.3	
Socony Mobil Oil Co., Inc.	2,017.8		1,721.0	
The Texas Company	1,814.6		1,767.3	
Gulf Oil Corporation	1,684.4		1,895.7	
Standard Oil Company of California	1,533.2		1,277.8	
Sinclair Oil Corp.	1,064.6		1,110.1	
Phillips Petroleum Co.	1,008.8		910.8	
Shell Oil Company	932.2		1,484.1	
Total		$17,754.1		$18,220.5
Per Cent of Group		(66.5%)		(45.0%)
Rubber				
Goodyear Tire and Rubber Co.	$608.0		$1,372.2	
Firestone Tire and Rubber Co.	463.6		1,114.9	
United States Rubber Co.	390.7		925.5	
B. F. Goodrich Co.	382.7		755.0	
Total		1,845.0		4,167.6
Per Cent of Group		(6.9%)		(10.3%)
Cigarette				
The American Tobacco Co.	$621.4		$1,090.8	
R. J. Reynolds Tobacco Co.	479.9		866.4	
Liggett [redacted] Myers Tobacco Co.	361.8		547.0	
Total		1,463.1		2,504.2
Per Cent of Group		(5.5%)		(6.2%)
Distilling				
Distillers Corp.-Seagrams Ltd.	$415.3		$735.7	
National Distillers Products Corp.	344.8		500.2	
Schenley Industries, Inc.	342.5		411.7	
Hiram Walker-Gooderham & Worts Ltd.	173.8		341.3	
Total		1,276.4		1,988.9
Per Cent of Group		(4.8%)		(4.9%)
Textile Fabric				
Burlington Industries, Inc.	$343.3		$512.2	
J. P. Stevens and Company, Inc.	215.9		321.1	
United Merchants & Mfrs., Inc.	135.2		341.8	
M. Lowenstein and Sons, Inc.	133.4		228.2	
Cannon Mills Company	113.9		193.7	
Total		941.7		1,597.0
Per Cent of Group		(3.5%)		(3.9%)

Industry and Company	Total Capital		Net Sales	
	Company	Industry	Company	Industry
	(millions)		(millions)	
Meat Packing				
Swift and Company	$418.0		$2,404.1	
Armour and Company	360.8		1,967.7	
Wilson & Co., Inc.	92.2		650.5	
The Cudahy Packing Co.	43.4		308.1	
Total		$914.4		$5,330.4
Per Cent of Group		(3.4%)		(13.2%)
Dairy Products				
National Dairy Products Corp.	$375.4		$1,260.2	
The Borden Company	257.1		810.1	
Total		632.5		2,070.3
Per Cent of Group		(2.4%)		(5.1%)
Toilet Preparations and Soap				
The Procter and Gamble Co.	$401.6		$965.8	
Colgate–Palmolive Co.	156.5		285.6	
Total		558.1		1,251.4
Per Cent of Group		(2.1%)		(3.1%)
Packaged Foods				
General Foods Corp.	$281.2		$931.1	
Standard Brands, Inc.	128.9		400.7	
Total		410.1		1,331.8
Per Cent of Group		(1.5%)		(3.3%)
Ethical Drug				
Merck and Company, Inc.	$136.3		$157.9	
Parke, Davis and Company	88.7		123.1	
Abbott Laboratories	71.7		91.7	
Total		296.7		372.7
Per Cent of Group		(1.1%)		(.9%)
Grain Mill Products				
General Mills, Inc.	$140.6		$516.1	
Pillsbury Mills, Inc.	82.5		331.0	
Total		223.1		847.1
Per Cent of Group		(.8%)		(2.1%)
Proprietary Drug				
American Home Products Corp.	$93.2		$234.5	
Sterling Drug, Inc.	86.3		166.9	
Vick Chemical Co.	38.0		72.7	
Total		217.5		474.1
Per Cent of Group		(.8%)		(1.2%)
Corn Products				
Corn Products Refining Co.	$155.6		$290.2	
Penick and Ford, Ltd., Inc.	18.7		52.5	
Total		174.3		342.7
Per Cent of Group		(.7%)		(.8%)
Group Total		$26,707.0		$40,498.7

Chart 25. CONSUMERS' NONDURABLE GOODS

Earnings Rates on Total Capital by Industries
1935–1955



Industry	Earnings Rates on Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Proprietary Drugs	16.6%	17.1%	16.8%	31.1%	20.2%
Ethical Drugs	13.4	19.6	15.6	24.1	13.4
Oil	12.4	12.5	12.4	6.3	12.0
Toilet Preparations & Soap	12.3	20.5	15.1	13.5	12.9
Corn Products	12.0	14.8	13.1	8.1	14.1
Rubber	10.8	10.5	10.7	5.7	11.1
Packaged Foods	10.5	11.9	11.0	18.1	12.3
Dairy Products	8.8	11.2	9.7	7.5	9.8
Grain Mill Products	8.2	9.6	8.7	7.8	8.4
Cigarettes	7.8	9.7	9.6	14.6	9.4
Distilling	7.0	15.3	9.9	14.5	6.1
Textile Fabrics	6.6	19.8	11.0	4.3	6.9
Meat Packing	3.8	5.9	4.7	4.1	4.1
Group, including Oil	11.0	12.4	11.5	7.4	11.1
Group, excluding Oil	8.6	12.3	11.0	9.5	9.3

Proprietary Drugs and Ethical Drugs were among the top four industries in all periods, while only Meat Packing was equally as consistently among the lowest four. The most notable shifts in relative standings in 1951–55 compared to 1935–39 were Oil from the lowest four to the upper four and Cigarettes from the upper four to the lowest four.

In the following tabulation the postwar percentage improvement or decline in earnings rates in relation to the 1935–39 average is computed. The industries are ranked according to their relative improvements as of 1951–55.

Industry	Percentage Change from 1935–39 Average		
	1951–55	1947–50	1955
Oil	+97%	+98%	+90%
Rubber	+90	+84	+95
Textile Fabrics	+54	+360	+60
Corn Products	+48	+83	+74
Dairy Products	+17	+49	+31
Grain Mill Products	+ 5	+23	+ 8
Meat Packing	− 7	+44	0
Toilet Preparations & Soap	− 9	+52	− 5
Packaged Foods	−42	−34	−32
Ethical Drugs	−44	−19	−44
Cigarettes	−47	−34	−36
Proprietary Drugs	−47	−45	−35
Distilling	−52	+ 6	−58

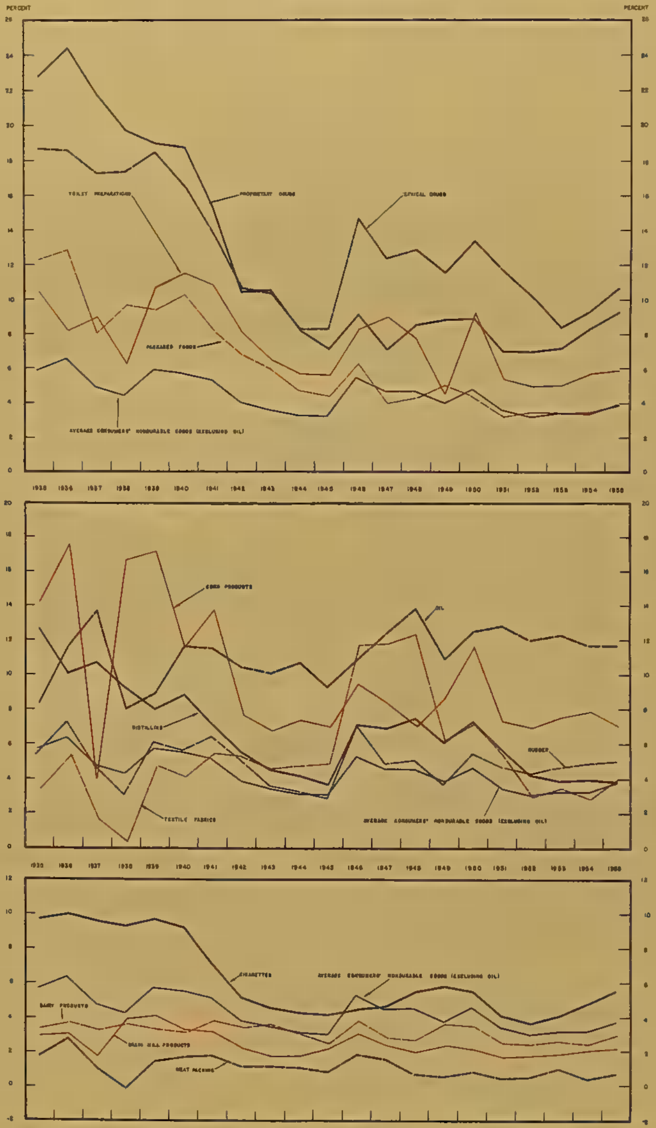
The prewar and postwar comparisons bring out three significant facts. (1) The extent of the differences in the earnings experiences of the thirteen industries is striking. Although the earnings rates of some of the industries rose greatly, seven had lower earnings rates in 1951–55 than in 1935–39. For example, whereas the return on total capital earned by Oil and Rubber in 1951–55 was nearly double their 1935–39 rates, that for Cigarettes, Proprietary Drugs, and Distilling was approximately one-half. (2) A comparison of the foregoing 1951–55 rankings of the industries—in terms of improvement in earnings—with their relative standings in 1935–39—in terms of the actual earnings rates on total capital—reveals that those industries which improved the most were the low earners in 1935–39; contrariwise, those industries which declined the most were the high earners in 1935–39. For example, Oil, Rubber, and Textile Fabrics, which top the improvement list in 1951–55, ranked tenth, eleventh, and twelfth, respectively, on an earnings basis in 1935–39. Distilling, Proprietary Drugs, Cigarettes, Ethical Drugs, and Packaged Foods, which were at the bottom of the improvement list, were the five top earners in 1935–39. (3) In 1955 all industries, except Oil, Ethical Drugs, and Distilling, showed some improvement over their 1951–55 average earnings rates. Proprietary Drugs and Cigarettes enjoyed the most pronounced gains.

Note that, in spite of the substantial decline in their earnings rates on total capital, Proprietary Drugs and Ethical Drugs remained the two top earning industries in 1951–55.

Trends. The group average (excluding Oil) had no pronounced trend over the 1935–55 period (Chart 26). However, if the Oil Industry is included, the group average had a definite trend (Chart 13, Chapter 5). The trends of the individual industries were rather mixed. Three industries—Oil, Corn Products, and Rubber—had marked upward trends

Chart 26. CONSUMERS' NONDURABLE GOODS

Earnings Available Total Capital to Sales
1935–1955



and five—Proprietary Drugs, Ethical Drugs, Packaged Foods, Distilling, and Cigarettes—had decided downward trends.

Stability. Measured in terms of their annual rates relative to a fitted trend line over the 1935–55 period, the industries in the Consumers' Nondurable Goods Group were predominantly stable. In fact, the five most stable industries of the entire thirty-three were in this Group: Cigarettes, Proprietary Drugs, Packaged Foods, Ethical Drugs, and Grain Mill Products. At the same time, the Group included, next to Aircraft, the three most unstable industries reviewed: Textile Fabrics, Meat Packing, and Distilling.

Profit Margins

The persistent, substantial differences between the profit margins of the several industries and the dominant downward movement of the margins over the period of review may be observed from Chart 26. It will also be noted from the following tabulation that all of the industries, except Oil and Textile Fabrics, had lower profit margins in every postwar period than in 1935–39.

Industry	Earnings Available Total Capital to Sales				
	1951–55	1947–50	1947–55	1935–39	1955
Oil	12.0%	12.4%	12.2%	10.2%	11.7%
Ethical Drugs	10.1	12.6	11.1	18.1	10.7
Proprietary Drugs	7.8	8.4	8.0	21.2	9.3
Corn Products	7.4	9.0	8.0	13.7	7.1
Toilet Preparations & Soap	5.3	7.5	6.1	8.8	5.8
Rubber	4.6	4.8	4.7	5.2	4.9
Cigarettes	4.4	5.4	4.8	9.7	5.5
Distilling	4.3	7.0	5.5	10.0	3.9
Textile Fabrics	3.8	9.3	5.9	3.0	4.1
Packaged Foods	3.4	4.3	3.7	10.3	3.8
Dairy Products	2.7	3.3	2.9	3.5	3.0
Grain Mill Products	1.9	2.3	2.1	3.1	2.2
Meat Packing	.6	.9	.7	1.4	.7
Group, including Oil	6.9	7.2	7.1	7.2	7.3
Group, excluding Oil	3.3	4.3	3.7	5.3	3.7

Comparing 1951–55 with 1935–39, profit margins were reduced by more than one-half in the case of Proprietary Drugs, Packaged Foods, Distilling, Cigarettes, and Meat Packing.

In spite of the number of pronounced declines, there were few notable shifts in relative positions. Dairy Products, Grain Mill Products, and Meat Packing were among the four with the narrowest profit margins in all periods. Ethical Drugs and Corn Products were among the top four of the group in all periods. The most significant shifts in relative positions were Packaged Foods' drop from fourth place in 1935–39 to tenth in 1951–55, Oil's rise from fifth to first place, Toilet Preparations & Soap from eighth to fifth, Rubber from ninth to sixth, and Textile Fabrics from twelfth to ninth place.

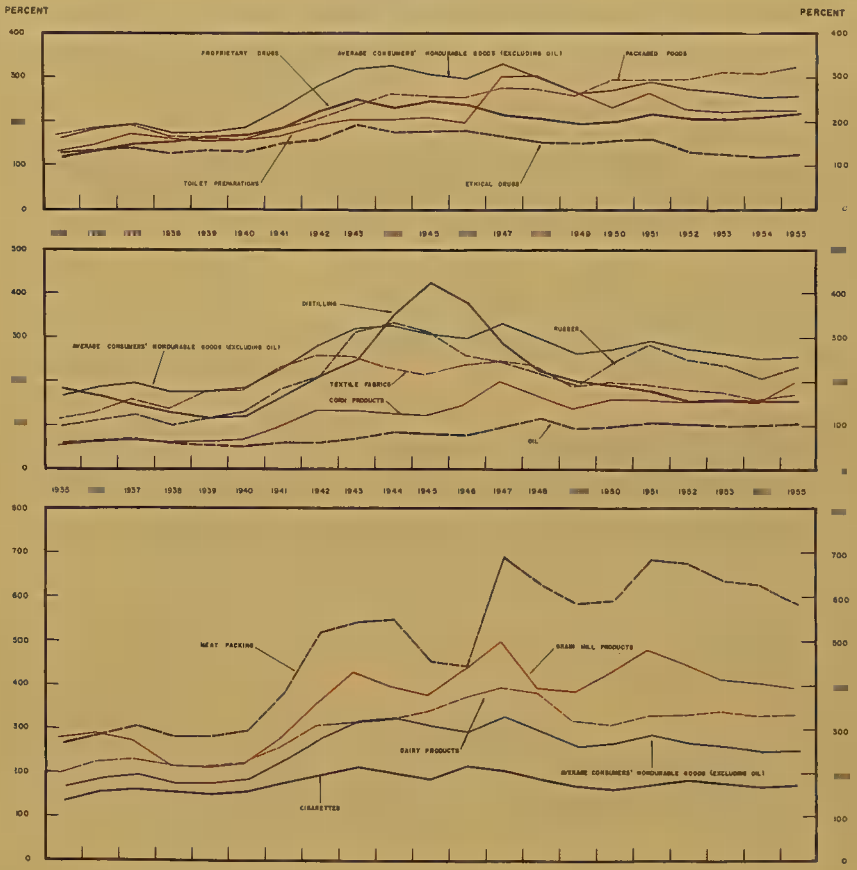
Capital Turnover

Period Comparison. With the exception of Ethical Drugs there was a general upward trend in capital turnover for all of the industries in the group (Chart 27). Likewise, except for Ethical Drugs, note from the following tabulation that all industries had higher capital turnover in every postwar period than in 1935–39.

Industry	Sales to Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Meat Packing	641%	622%	633%	286%	583%
Grain Mill Products	422	422	422	250	390
Dairy Products	328	343	334	212	327
Packaged Foods	308	276	296	176	325
Rubber	233	219	228	109	226
Toilet Preparations & Soap	232	275	247	153	224
Proprietary Drugs	212	204	209	146	218
Textile Fabrics	175	212	188	144	170
Cigarettes	175	180	177	151	171
Corn Products	162	164	163	59	197
Distilling	161	220	182	144	156
Ethical Drugs	132	156	141	133	126
Oil	103	101	102	61	103
Group, including Oil	159	171	164	103	152
Group, excluding Oil	261	284	269	180	249

Chart 27. CONSUMERS' NONDURABLE GOODS

Sales to Total Capital
1935–1955



The marked differences in capital turnover among the industries have, like those of the profit margins, tended to persist and even widen. In 1935–39 the highest rate of turnover (Meat—286%) was not quite five times the lowest (Corn Products—59%) while in all other periods the highest was more than six times the lowest.

Broadly speaking, there was little change in the relative standing of the industries. The four industries with the highest turnover in all periods were the same—Meat Packing, Grain Mill Products, Dairy Products, and Packaged Foods—and three industries—Corn Products, Ethical Drugs, and Oil—were among the four lowest in all periods.

Growth in Sales and Total Capital. As in other respects, marked differences exist between the industries in terms of growth in sales and total capital (Table 38). They are more pronounced in regard to capital growth.

Looking first at the sales growth over the full span from 1935–39 to 1951–55, Distilling substantially outstripped the other industries and exceeded by more than two and one-half times that for Meat Packing, which had the least growth. Along with Distilling, Textile Fabrics, Proprietary Drugs, and Rubber made up the four industries enjoying the most sales growth. Cigarettes, Corn Products, and Dairy Products joined up with Meat Packing to constitute the four industries which had the smallest increase.

Taking [illegible] the next measure of growth the sales increase from 1947–50 to 1951–55, the most pronounced improvement was experienced by Rubber, Oil, Packaged Foods, and Ethical Drugs. Interestingly, out of the four industries which had the most sales growth over the full span of the study, only one—Rubber—stood among the four which had the most average growth over the last five years in relation to 1947–50. The four industries with the smallest increase in the 1951–55 period were Distilling, Meat Packing, Corn Products, and Cigarettes. Out of this group, the last three also showed the least improvement over the full span. Although Distilling had the smallest increase from 1947–50 to 1951–55, it still managed to show by a substantial margin the greatest growth in sales over the entire twenty-one-year span.

Table 38. CONSUMERS' NONDURABLE GOODS GROUP

Comparative Industry Performance
Indexes of Sales and Total Capital
Selected Periods

Industry	1951–55	1947–50	1935–39	1955
	Index of Sales			
Distilling	737.3	690.0	100.0	733.5
Textile Fabrics	630.2	483.2	100.0	693.6
Proprietary Drugs	624.2	475.5	100.0	693.6
Rubber	589.2	379.8	100.0	664.7
Ethical Drugs	570.9	423.4	100.0	578.2
Packaged Foods	501.2	330.6	100.0	575.8
Oil	462.8	299.6	100.0	550.3
Grain Mill Products	413.5	321.6	100.0	444.0
Toilet Preparations [illegible] Soap	403.1	309.0	100.0	431.7
Dairy Products	352.6	279.3	100.0	372.9
Corn Products	341.3	306.0	100.0	356.0
Cigarettes	325.9	281.1	100.0	330.8
Meat Packing	292.6	271.6	100.0	267.1
	Index of Total Capital			
Distilling	660.8	452.0	100.0	679.0
Ethical Drugs	591.8	361.4	100.0	639.0
Textile Fabrics	561.9	355.9	100.0	637.6
Proprietary Drugs	431.3	341.6	100.0	471.8
Packaged Foods	286.1	210.4	100.0	311.5
Cigarettes	280.7	235.1	100.0	291.7
Oil	276.9	182.9	100.0	329.8
Rubber	276.8	189.9	100.0	322.3
Toilet Preparations & Soap	266.5	172.2	100.0	303.5
Grain Mill Products	245.0	190.5	100.0	276.6
Dairy Products	227.6	172.7	100.0	242.2
Corn Products	134.4	110.5	100.0	147.5
Meat Packing	130.5	124.6	100.0	130.8

The differences in growth in total capital of the thirteen industries are even more striking than in sales. Here again, Distilling topped the list. Its 1951–55 capital index was over five times that for Meat Packing, which also in this instance had the smallest increase. It was noted earlier in this chapter that the following seven industries had lower rates of return on total capital in 1951–55 than in 1935–39:

Distilling
Proprietary Drugs
Cigarettes
Ethical Drugs
Packaged Foods
Toilet Preparations & Soap
Meat Packing

If this list is compared with the 1951–55 ranking of the industries according to capital growth in Table 38, it will be seen that the first five industries were among those which had the greatest capital growth. Looked at from the other side, out of the top six industries having the highest total capital index in 1951–55, only one—Textile Fabrics—had a higher return on capital in 1951–55 than in 1935–39.

In the last five years, 1951–55 compared to 1947–50, the increase is somewhat different from that over the entire span. On this basis the four industries with the most capital growth were Ethical Drugs, Textile Fabrics, Toilet Preparations & Soap, and Oil. Only the first two industries were among the top four over the entire twenty-one-year period. For the 1947–50 to 1951–55 span the four industries with the least growth were Meat Packing, Cigarettes, Corn Products, and Proprietary Drugs. Out of this group, only Meat Packing was among the lowest four for the entire span of the study.

Earnings Rate on Common-Stock Capital

Common Stock as a Percentage of Total Capital. Considered as a whole the group has displayed little change in the percentage common-stock capital was of total capital over the period of review. Nevertheless, some notable changes took place in several industries, and there were significant differences among the industries in all periods.

Industry	Common Stock to Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Toilet Preparations & Soap	86%	95%	89%	75%	85%
Corn Products	85	81	83	79	86
Oil	83	81	82	83	85
Proprietary Drugs	80	77	79	96	83
Ethical Drugs	78	78	78	78	79
Textile Fabrics	78	86	81	95	70
Dairy Products	74	76	75	71	77
Packaged Foods	74	75	75	86	78
Grain Mill Products	71	63	68	66	72
Distilling	70	70	70	64	73
Meat Packing	68	65	67	53	69
Rubber	63	56	61	29	67
Cigarettes	57	49	54	75	60
Group, including Oil	78	75	77	75	80
Group, excluding Oil	69	67	68	61	71

The most pronounced change was in Rubber, whose percentage of common stock rose almost without interruption over the entire period from a low of 25% in 1935 (1935–39 average 29%) to 67% in 1955 (1951–55 average 63%). Meat Packing was the only other industry which increased its common-stock proportion by as much as fifteen percentage points in 1951–55 as compared to 1935–39. In contrast, Proprietary Drugs, Textile Fabrics, and Cigarettes decreased their common-stock proportions by fifteen or more percentage points. In 1951–55 the industries were about evenly divided between those having increases and decreases in common stock percentages as compared to 1935–39. In the 1951–55 period as compared to 1947–50, only Toilet Preparations & Soap had any large change in the percentage of common-stock capital to total capital—from 95% to 86%.

Comparative Return on Common and Total Capital. The earnings rates on common-stock capital for the industries are shown on Chart 28 and comparisons with the earnings rates on total capital by periods in Table 39.

Chart 28. CONSUMERS' [redacted] GOODS
Earnings Rates on Common Stock Capital by Industries
1935–1955

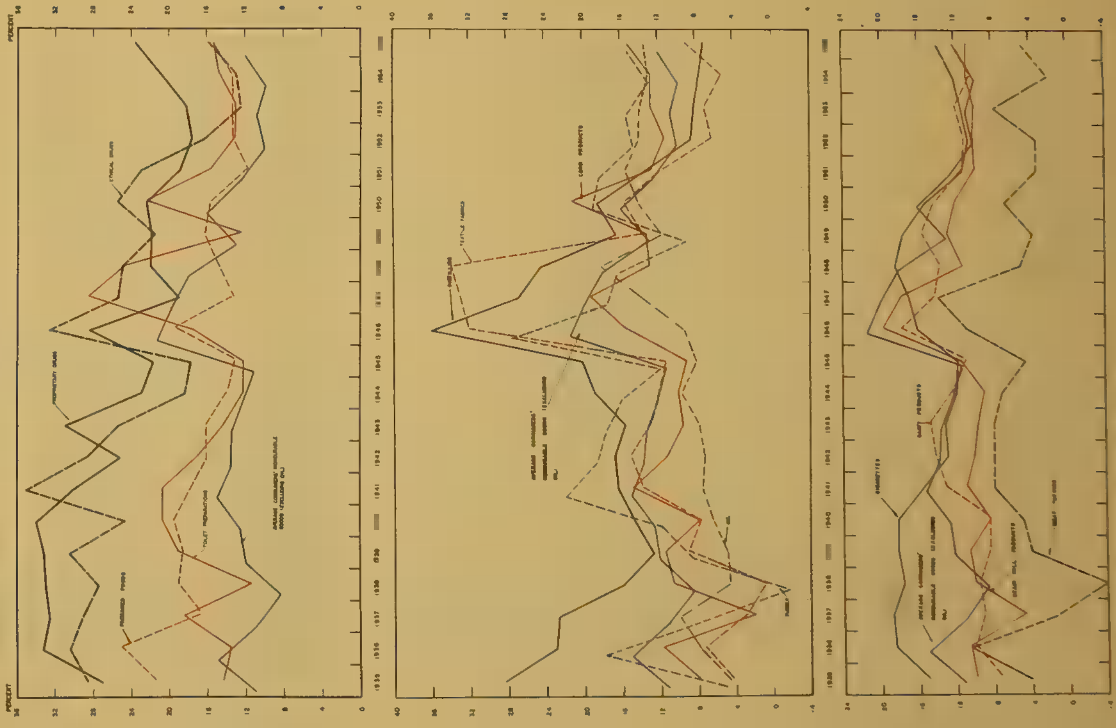


Table 39. CONSUMERS' NONDURABLE GOODS GROUP

Earnings Rates on Common-Stock Capital and on Total
Selected Periods

Industry	1951–55		1947–50		1947–55		1935–39		1955	
	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital
Proprietary Drugs	20.0%	16.6%	21.4%	17.1%	20.5%	16.8%	32.0%	31.1%	23.7%	20.2%
Ethical Drugs	16.1	13.4	24.3	19.6	19.0	15.6	29.2	24.1	15.9	13.4
Rubber	15.5	10.8	15.9	10.5	15.6	10.7	7.8	5.9	15.3	11.1
Toilet Preparations & Soap	14.1	12.3	21.5	20.5	16.7	15.1	15.5	13.5	14.9	12.9
Oil	14.1	12.4	14.4	12.5	14.2	12.4	6.4	6.3	13.8	12.0
Packaged Foods	13.3	10.5	14.8	11.9	13.9	11.0	20.1	18.1	15.1	12.3
Corn Products	12.9	12.0	16.6	14.8	14.3	13.1	8.4	8.1	15.2	14.1
Cigarettes	12.0	7.8	16.9	9.7	13.8	8.6	17.5	14.6	14.2	9.4
Dairy Products	11.3	8.8	14.2	11.2	12.4	9.7	8.7	7.5	12.3	9.8
Grain Mill Products	10.1	8.2	13.2	9.6	11.2	8.7	8.8	7.8	10.6	8.4
Distilling	9.2	7.0	21.2	15.3	13.4	9.9	19.7	14.5	7.5	6.1
Textile Fabrics	7.9	6.6	22.5	19.8	13.1	11.0	4.4	4.3	9.0	6.9
Meat Packing	4.4	3.8	7.6	5.9	5.8	4.7	3.3	4.1	5.1	4.1
Consumers' Nondurable Goods Group										
Including Oil	13.2	11.0	12.4	12.4	14.0	11.5	8.0	7.4	13.3	11.1
Excluding Oil	11.4	8.6	12.3	12.3	13.5	10.0	12.2	9.5	12.2	9.3

Because of the limited changes in capital structure for most of the industries, the configurations are greatly similar to those for earnings rates on total capital previously discussed. However, differences in leverage served to change the relative ranking of the industries in terms of earnings rates on common-stock capital as compared to their ranking in terms of earnings rates on total capital in some periods. In 1935–39 the relative positions of the industries in terms of the two earnings rates were similar, with only Corn Products having a difference of two "rungs." It was seventh highest in earnings on total capital but only ninth in earnings on common-stock capital. In that period the relative standings of six industries was the same on both bases and six had differences in relative rankings of only one "rung." In the 1947–50 period the differences were more pronounced than during any other period. The Cigarette Industry, which was in eleventh place in earnings on total capital, stood in sixth on common stock capital. The positions of five other industries differed by two or more "rungs," and five were in the same relative standing on both counts.

In 1951-55 six industries had the same rankings on the basis of the return on both common stock and total capital. Out of the remaining seven, Rubber had the most prominent difference in ranking on the two bases (three "rungs"), and three industries—Oil, Corn Products, and Cigarettes—had a difference of two "rungs."

Summary

The earnings experiences of the thirteen industries are characterized by their marked differences. In each of the following respects their dissimilarities were pronounced. (1) A wide range existed in the levels of earnings throughout the span, with substantial shifting of position by industries. (2) Oil, Rubber, Textile Fabrics, and Corn Products benefited most from the postwar prosperity. In contrast, Distilling, Proprietary Drugs, Cigarettes, and Ethical Drugs suffered heavy declines in their postwar earnings rates. (3) Oil, Corn Products, and Rubber had marked upward trends; and Proprietary Drugs, Ethical Drugs, Packaged Foods, Distilling, and Cigarettes had pronounced downward trends. (4) The group includes the most stable and unstable earners covered by the study.

In contrast to the foregoing, there were aspects of earnings in which practically all the industries moved in the same direction. (1) With the exception of Oil and Textile Fabrics, every industry had lower postwar profit margins. (2) With the exception of Ethical Drugs, there was an increase in capital turnover for all of the industries.

Pronounced changes in common-stock proportions occurred in five industries. Rubber and Meat Packing increased substantially common stock as a percentage of total capital. Proprietary Drugs, Textile Fabrics, and Cigarettes had marked declines in their common-stock proportions.

MARKET VALUATION

Earnings-Price Ratios

In view of (1) the analysis in Chapter 4 of the relations between stability of earnings rates on common-stock capital and earnings-price ratios and (2) the marked differences in stability among the industries of this group noted earlier, extensive divergence among their earnings-price ratios is to be expected. Chart 29 and the tabulation on this page confirm fully the expectation.

In spite of the wide differences in levels and annual fluctuations, there was some similarity in broad movements over the period of review and in interperiod comparisons. All industries had higher—in most cases substantially higher—average earnings-price ratios over the 1947–50 period than in 1935–39. Likewise, from the comparatively high levels of 1947–50 all 1951–55 averages showed declines. Only in the case of Dairy Products, Proprietary Drugs, and Distilling were the declines sufficient to bring the 1951–55 averages below 1935–39. Compared to their 1935–55 averages only Cigarettes, Corn Products, and Packaged Foods had higher earnings yields in 1951–55 and only the first two in 1955.

Industry	Earnings-Price Ratios					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Ethical Drugs	5.7%	8.2%	6.6%	6.3%	5.0%	6.0%
Toilet Preparations & Soap	6.9	11.6	8.5	7.8	6.0	6.4
Dairy Products	7.2	11.9	8.7	9.2	7.7	7.0
Corn Products	7.4	9.2	8.1	6.6	4.2	8.5
Proprietary Drugs	7.9	8.9	8.3	8.1	8.2	7.2
Grain Mill Products	8.2	10.6	9.0	8.8	7.8	7.9
Meat Packing	8.3	15.1	11.1	11.4	7.1	8.1
Packaged Foods	8.4	9.8	8.9	8.0	6.7	7.7
Cigarettes	8.9	9.6	9.2	7.5	5.7	10.3
Textile Fabrics	10.0	25.3	15.9	15.6	6.5	10.7
Distilling	10.7	23.9	15.4	15.7	15.0	8.3
Oil	10.9	16.2	12.3	11.2	7.0	8.9
Rubber	13.0	25.8	15.6	16.0	7.3	9.3
Group, including Oil	10.3	15.4	11.8	10.7	6.8	8.7
Group, excluding Oil	9.0	14.2	10.8	9.9	6.6	8.3

Considering that within these broad general movements substantial divergence existed between the market's valuation of individual industries, was there any consistency in the rankings of the industries across the twenty-one-year span? Based on the period tabulation, Ethical Drugs, Toilet Preparations & Soap, and Corn Products were among the four industries with the lowest yields (highest multipliers) in practically all periods. Grain Mill Products and Packaged Foods were in the middle group most of the way, while Rubber, Distilling, and Textiles were among the four with the highest earnings yields (lowest multipliers) in nearly every period.

Payout Rates

The wide differences among the industries regarding percentage of earnings distributed are shown in their payout rates for selected periods.

In every period the highest payout rate far exceeded the lowest—the range being from approximately twice to nearly three times. In general, the payout rates in the postwar period were lower than in the prewar span. The notable exception was Distilling, which had a much higher

Industry	Per [illegible] of Earnings Paid Out in Dividends					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Cigarettes	69.5%	57.8%	64.2%	76.3%	101.7%	56.4%
Corn Products	68.6	61.5	65.4	77.9	115.4	60.1
Dairy Products	65.0	51.2	58.9	57.7	83.3	58.5
Ethical Drugs	63.3	52.0	58.3	62.0	82.3	59.2
Proprietary Drugs	63.1	63.6	63.3	64.0	74.0	59.7
Packaged Foods	57.9	57.1	57.6	63.7	89.1	52.9
Toilet Preparations & Soap	57.6	51.5	54.8	57.9	66.9	58.1
Meat Packing	56.7	43.1	49.1	45.4	73.9	46.4
Textile Fabrics	56.1	33.1	41.9	40.6	78.1	42.9
Distilling	54.6	28.3	40.0	37.1	36.7	56.9
Grain Mill Products	52.7	46.2	50.0	52.0	66.2	53.3
Oil	42.3	34.5	39.6	42.1	54.5	42.1
Rubber	34.2	32.5	33.7	31.1	35.4	35.0
Group, including Oil	45.7	37.8	42.7	45.8	65.4	44.3
Group, excluding Oil	54.7	43.3	49.4	52.5	79.5	50.2

payout rate in 1951–55 than in 1935–39 (54.6% to 36.7%), but for the 1947–55 span averaged only slightly higher.

Two industries—Cigarette and Corn Products—were consistently among those distributing [illegible] large proportion of earnings in the form of cash dividends, and three industries—Distilling, Oil, and Rubber—were consistently among those with low payout rates.

Before leaving payout rates, it will be recalled that a significant correlation was found between average payout rates and average earnings yields over the 1935–55 period (Chapter 4). Thus, the wide differences in payout rates among these industries would also be a contributing factor to the wide divergence among earnings yields noted above.

Dividend Yields

In contrast to the diversity which characterized the other series for the Consumers' Nondurable Goods Industries, their divided yields display a considerable degree of uniformity although marked departures are not wanting (Chart 30 and tabulation below).

Industry	Dividend Yields					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Ethical Drugs	3.6%	4.3%	3.8%	3.9%	4.1%	3.6%
Toilet Preparations & Soap	4.0	6.0	4.7	4.5	4.0	3.7
Grain Mill Products	4.3	4.9	4.5	4.6	5.2	4.2
Rubber	4.5	8.4	5.2	5.0	2.6	3.2
Oil	4.6	5.6	4.9	4.7	3.8	3.7
Meat Packing	4.7	6.5	5.5	5.2	5.2	3.8
Dairy Products	4.7	6.1	5.2	5.3	6.4	4.1
Packaged Foods	4.9	5.6	5.1	5.1	6.0	4.1
Proprietary Drugs	5.0	5.7	5.2	5.2	6.0	4.3
Corn Products	5.1	5.7	5.3	5.1	4.9	5.1
Textile Fabrics	5.6	8.4	6.7	6.3	5.1	4.6
Distilling	5.8	6.8	6.2	5.8	5.5	4.7
Cigarettes	6.2	5.5	5.9	5.7	5.8	5.8
Group, including Oil	4.7	5.8	5.0	4.9	4.4	3.9
Group, excluding Oil	4.9	6.1	5.3	5.2	5.2	4.2

Of the several periods for which average dividend yields were computed, the minimum degree of uniformity was displayed in the 1935–39 span. All other periods showed both a narrower range and a somewhat better cluster around the median. The latter characteristic was most pronounced for the entire span, 1935–55, when six industries had yields ranging from 5.0% to 5.3%. The most marked departures from the general level for the group was the 2.6% of Rubber in 1935–39 and the 8.4% of Rubber and of Textile Fabrics in 1947–50. The rise of the yield for Rubber from 2.6% in 1935–39 to 8.4% in 1947–50 was the outstanding change both over time for any industry and of relative position among the industries, i.e., from lowest in 1935–39 to a tie for highest in 1947–50.

Because of the limited differences over a large part of the range in several periods small absolute differences could change [illegible] industry's ranking considerably. Partly for this reason there were few industries which can be designated as having high or low dividend yields relative to the others in the group. Ethical Drugs was the one industry whose yields were consistently low and Distilling the only one consistently high relatively.

Chart 29. CONSUMERS' NONDURABLE GOODS

Earnings-Price Ratios by Industries
1935–1955

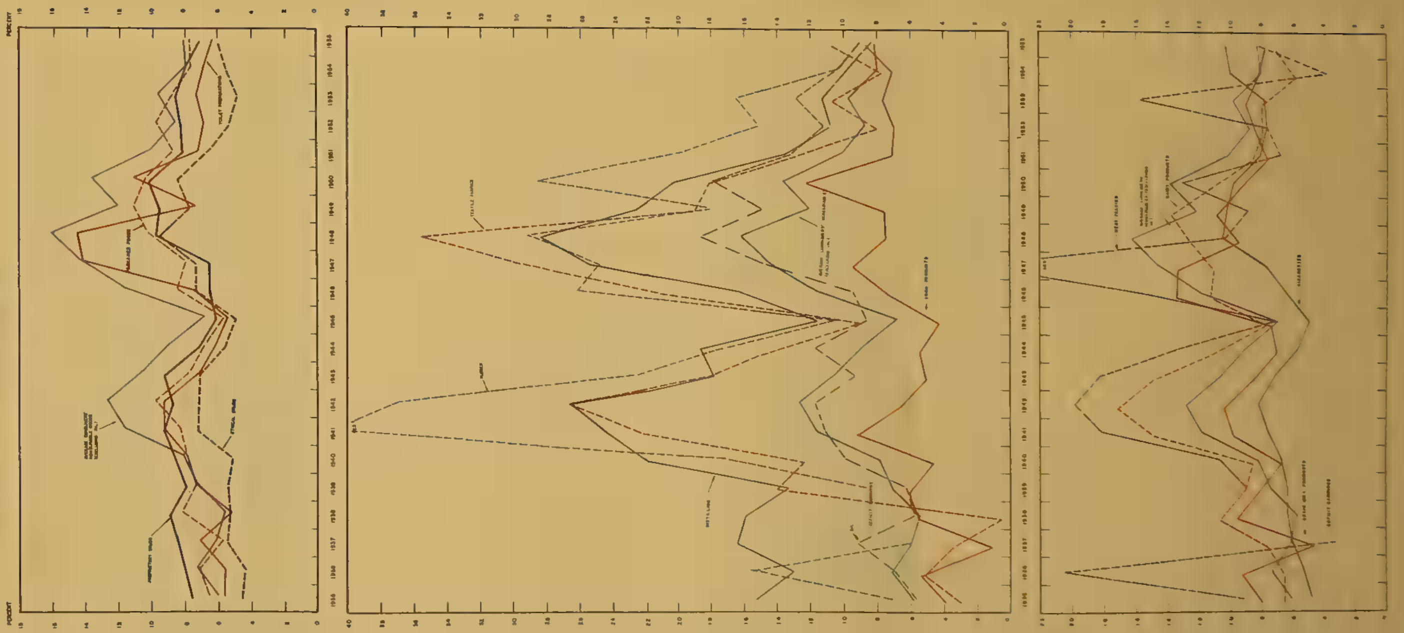
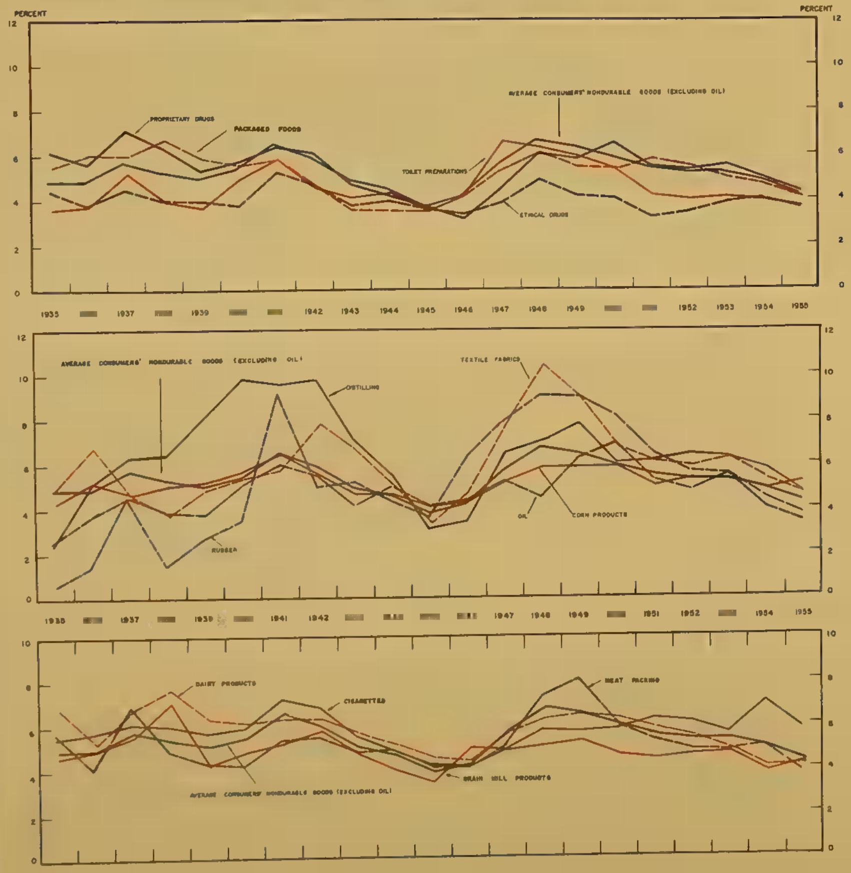


Chart 30. CONSUMERS' NONDURABLE GOODS

Dividend Yields by Industries
1935–1955



Market Value to Book Value

As may be readily observed from Chart 31, the industries displayed wide and persistent differences in the relation of the market value of common stock to book value. Five industries—Ethical Drugs, Proprietary Drugs, Toilet Preparations & Soap, Packaged Foods, and Corn Products—were above the average for the group in every year, and Cigarettes was above in every year except 1954. Meat Packing and Textile Fabrics were always below the average and, except for a year or two, so were Rubber, Distilling, and Oil.

The limited change that has occurred among the several industries in terms of relative rank may be observed from the tabulation of their market-to-book ratios by periods.

Industry	Market Value to [redacted] Value					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Ethical Drugs	284%	297%	288%	333%	584%	264%
Proprietary Drugs	253	239	248	289	392	[redacted]
Toilet Preparations & Soap	203	185	197	211	258	232
Corn Products	174	180	176	184	200	180
Packaged Foods	158	152	156	193	300	195
Dairy Products	156	119	142	130	113	174
Cigarettes	135	177	151	194	309	138
Oil	130	89	116	96	92	156
Grain Mill Products	124	124	124	123	113	133
Rubber	119	62	100	98	107	165
Distilling	86	89	87	97	131	91
Textile Fabrics	79	89	83	[redacted]	67	84
Meat Packing	53	50	52	51	47	62
Group, including Oil	129	100	119	115	118	153
Group, excluding Oil	127	120	125	138	189	147

Five industries—Ethical Drugs, Proprietary Drugs, Toilet Preparations & Soap, Corn Products, and Packaged Foods—ranked among the high half during all periods of review with the first two ranking one-two in all periods in spite of rather pronounced downward trends. Cigarettes was in the top half in all periods save 1951–55, when it was the middle industry. Four industries—Oil, Rubber, Textile Fabrics, and Meat Packing—were among the lower half industries in all periods with Meat Packing having the lowest of all not only for all periods, but for every single year of the 1935–55 span.

Over the period of review, five industries had rather pronounced downward trends. These were Ethical Drugs, Proprietary Drugs, Toilet Preparations & Soap, Packaged Foods, and Cigarettes. There were no industries which had comparable rising trends, although Dairy Products and Oil had some upward movement.

Largely as a result of the declining trends among the leaders there has been some drawing together of this ratio for the industries. The range in 1951–55 was only about half that of 1935–39 and there was a narrowing of spreads between the upper four, middle five, and lower four. Whereas the average of the upper four industries was more than 2.4 times the middle five and 5.1 times the lower four in 1935–39, it was 1.6 times the middle group and 2.7 times the lowest group in 1951–55.

The influence of the earnings rates on common-stock capital upon the market-to-book ratios noted in Chapter 4 is observable within this more limited group. The industries mentioned above as having declining market-to-book trends were also those with definite downward trends in their earning rates. Likewise, there was rough correspondence between the rising trends of both series.

Summary

Primarily because of the wide differences in earning power, there was also little uniformity among the industries' market valuation series. For the most part, however, earnings-price ratios were higher and payout rates lower in the postwar period. The dividend yield picture was mixed. The most outstanding aspect of the market-to-book relationship was the pronounced downward trends of several industries.

Chart 31. CONSUMERS' NONDURABLE GOODS

Market Value to Book Value by Industries
1935–1955

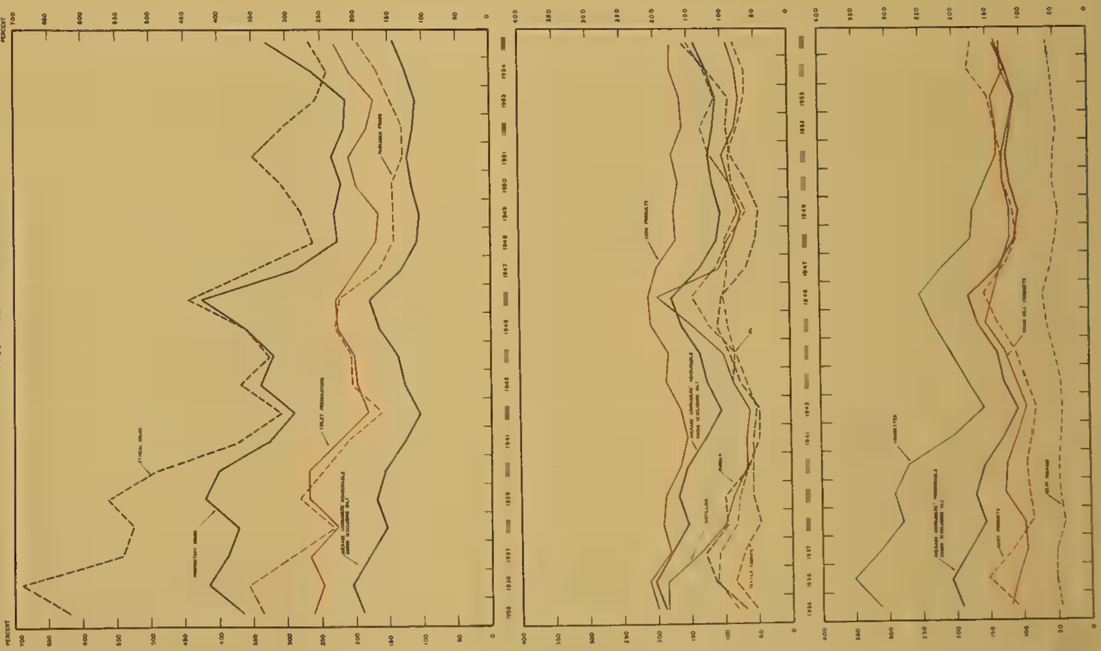


Table 40. CIGARETTE INDUSTRY

[illegible]	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	13.1	9.7	135	79	15.0	4.8	114.6	5.5	312	102.2	91.5
1936	15.4	10.0	154	76	18.5	5.3	108.7	5.7	352	98.3	100.3
1937	15.6	9.6	162	76	18.8	6.0	101.3	6.1	312	97.2	104.1
1938	14.5	9.3	156	75	17.6	6.3	94.6	6.0	277	98.8	102.1
1939	14.4	9.7	149	72	18.2	6.3	90.4	5.7	290	103.3	102.0
1940	14.3	9.2	156	72	18.2	6.7	87.8	5.9	270	105.6	108.9
1941	12.5	7.1	177	74	15.5	7.6	94.7	7.2	204	105.6	123.5
1942	10.2	5.2	195	70	12.9	8.2	83.5	6.8	157	112.8	146.1
1943	10.0	4.6	214	67	13.1	7.2	77.2	5.5	183	120.0	170.5
1944	8.6	4.3	199	63	11.9	5.7	83.2	4.8	207	129.5	171.1
1945	7.9	4.2	187	56	11.7	5.0	85.2	4.2	234	148.3	183.3
1946	9.6	4.5	213	50	16.0	6.4	63.9	4.1	252	172.3	243.3
1947	9.7	4.7	206	49	16.9	7.8	62.9	4.9	217	197.6	269.7
1948	10.3	5.5	188	48	18.4	10.5	55.3	5.8	175	227.0	283.5
1949	9.9	5.8	170	48	17.6	10.3	55.2	5.7	171	253.7	285.7
1950	9.1	5.5	164	52	15.2	9.9	58.7	5.8	154	262.2	285.6
1951	7.1	4.1	173	54	11.2	8.2	76.6	6.3	135	264.0	303.4
1952	6.8	3.7	185	55	10.6	7.8	79.2	6.1	136	274.7	336.9
1953	7.3	4.1	178	56	11.3	7.9	71.8	5.6	144	285.5	337.0
1954	8.1	4.8	169	58	12.3	10.0	70.2	7.0	123	287.5	321.2
1955	9.4	5.5	171	60	14.2	10.3	56.4	5.8	108	291.7	330.8
AVERAGES											
1935—1939	14.6	9.7	151	75	17.5	5.7	101.7	5.8	309		
1947—1955	8.6	4.8	177	54	13.8	9.2	64.2	5.9	151		
1947—1950	9.7	5.4	180	49	16.9	9.6	57.8	5.5	177		
1951—1955	7.8	4.4	175	57	12.0	8.9	69.5	6.2	135		

Table 41. CORN PRODUCTS INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39=100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	[redacted] TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET [redacted] per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	7.4	14.2	52	80	7.5	3.7	117.6	4.3	205	103.9	91.1
1936	10.6	17.5	61	80	11.6	5.3	97.3	5.2	217	102.6	105.2
1937	2.6	4.0	66	79	1.5	.8	585.7	4.7	186	99.3	111.1
1938	9.6	16.7	58	78	10.4	5.3	93.5	5.0	196	96.5	94.0
1939	10.3	17.2	60	79	11.2	5.9	89.2	5.2	192	97.6	98.7
1940	7.4	11.6	64	79	7.6	4.5	127.9	5.7	170	96.9	104.2
1941	12.9	13.8	94	78	14.6	9.1	71.7	6.5	160	94.3	149.1
1942	10.1	7.7	132	78	11.0	6.5	86.3	5.6	169	93.8	208.4
1943	8.9	6.8	131	78	9.4	5.0	93.9	4.7	190	94.3	207.3
1944	9.2	7.4	124	78	9.8	5.3	89.5	4.7	186	95.0	197.6
1945	8.4	7.0	120	78	8.9	4.2	98.7	4.1	213	95.2	192.5
1946	13.8	9.5	145	79	15.6	7.2	60.3	4.3	217	97.2	236.8
1947	16.7	8.4	198	80	19.2	9.4	55.1	5.2	204	103.5	345.3
1948	11.7	7.1	166	81	12.8	7.4	78.9	5.8	174	108.5	303.2
1949	12.0	8.7	138	81	13.2	7.5	78.0	5.8	176	111.6	259.6
1950	18.5	11.7	158	82	21.0	12.3	47.1	5.8	170	118.4	315.8
1951	11.7	7.4	157	83	12.6	7.0	70.5	5.0	179c	125.5	332.8
1952	10.5	7.0	151	84	11.2	6.9	76.9	5.3	163	128.8	327.8
1953	11.7	7.6	154	84	12.6	7.6	70.5	5.3	166	132.4	343.0
1954	11.7	7.9	150	85	12.6	7.0	69.5	4.8	181	137.6	346.7
1955	14.1	7.1	197	86	15.2	8.5	60.1	5.1	180	147.5	356.0
AVERAGES											
1935—1939	8.1	13.7	59	79	8.4	4.2	115.4	4.9	200		
1947—1955	13.1	8.0	163	83	14.3	8.1	65.4	5.3	176		
1947—1950	14.8	9.0	164	81	16.6	9.2	61.5	5.7	180		
1951—1955	12.0	7.4	162	85	12.9	7.4	68.6	5.1	174		

Table 42. DAIRY PRODUCTS INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO [redacted] per cent	SALES TO TOTAL CAPITAL per cent	[redacted] CAPITAL per cent	EARNINGS [redacted] per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	[redacted] TO [redacted] per cent	AVERAGE TOTAL CAPITAL index	ANNUAL [redacted] SALES index
1935	6.6	3.4	193	71	7.1	6.4	106.6	6.8	112	103.3	94.0
1936	8.4	3.8	220	70	9.9	6.4	81.0	5.2	156	98.9	102.6
1937	7.5	3.3	227	70	8.9	7.5	89.5	6.7	118	99.2	106.3
1938	7.8	3.7	211	72	9.3	10.5	72.7	7.6	89	99.2	98.7
1939	7.3	3.4	211	73	8.3	8.9	70.9	6.3	94	99.2	98.5
1940	6.9	3.2	218	74	8.1	8.4	72.3	6.1	96	99.4	101.9
1941	10.0	3.9	253	73	13.0	14.7	43.0	6.3	88	104.3	124.6
1942	10.8	3.5	303	74	14.0	17.0	36.8	6.3	82	112.0	160.4
1943	11.5	3.7	310	76	14.5	14.9	37.6	5.6	97	117.6	171.9
1944	9.9	3.1	318	79	12.0	10.9	47.2	5.1	111	120.9	181.4
1945	8.9	2.6	337	[redacted]	10.6	7.6	59.4	4.5	138	123.9	197.3
1946	14.5	3.9	368	80	17.6	11.1	40.1	4.4	159	133.7	232.1
1947	11.5	2.9	390	80	14.0	10.9	51.6	5.6	128	147.3	271.0
1948	10.6	2.8	377	76	13.5	12.4	50.2	6.2	109	166.0	295.5
1949	11.7	3.7	314	73	15.4	13.6	47.0	6.4	113	184.1	273.0
1950	10.9	3.6	305	75	14.0	11.0	55.8	6.2	127	193.3	277.7
1951	8.6	2.6	326	73	11.1	8.5	69.0	5.8	131	207.7	319.8
1952	8.3	2.5	329	72	11.0	7.8	68.5	5.4	140	222.4	344.8
1953	9.1	2.7	337	73	11.9	7.9	61.1	4.8	150	230.1	365.6
1954	8.0	2.5	323	75	10.3	5.7	70.5	4.0	179	235.6	358.9
1955	9.[redacted]	3.0	327	77	12.3	7.0	58.5	4.1	174	242.2	373.9
AVERAGES											
1935—1939	7.5	3.5	212	71	8.7	7.7	83.3	6.4	113		
1947—1955	9.7	2.9	334	75	12.4	8.7	58.9	5.2	142		
1947—1950	11.2	3.3	343	76	14.2	11.9	51.2	6.1	119		
1951—1955	8.8	2.7	328	74	11.3	7.2	65.0	4.7	156		

Table 43. DISTILLING INDUSTRY

[redacted]	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39=100	
	[redacted] RATE per cent	EARNINGS [redacted] SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	23.5	12.7	185	78	28.4	15.3	14.4	2.4	186	62.3	79.7
1936	17.2	10.1	169	67	23.1	13.0	39.4	5.1	186	83.4	97.8
1937	15.9	10.7	148	60	22.8	16.4	38.1	6.3	138	105.6	108.6
1938	11.9	9.2	130	62	16.0	15.9	39.9	6.4	100	118.0	106.1
1939	9.5	8.0	119	60	12.9	13.3	56.4	8.1	[redacted]	130.8	107.7
1940	10.6	8.8	121	61	14.9	22.0	44.4	9.8	68	137.3	115.1
1941	11.8	7.1	165	62	16.5	24.4	39.1	9.6	68	146.4	167.8
1942	11.7	5.5	211	61	16.9	26.5	37.1	9.8	64	164.7	241.5
1943	11.3	4.5	250	63	15.8	17.8	39.9	7.1	88	173.9	301.8
1944	14.8	4.2	353	71	19.0	18.6	30.3	5.6	102	175.7	430.1
1945	15.6	3.7	425	72	20.2	11.6	27.0	3.1	174	200.7	590.9
1946	27.2	7.1	383	74	36.2	16.4	20.7	3.4	220	255.3	678.0
1947	19.6	6.9	284	70	27.2	25.3	25.6	6.5	108	347.4	684.3
1948	17.0	7.5	226	67	24.5	28.3	24.9	7.0	87	437.6	685.9
1949	12.2	6.1	201	70	16.7	22.5	34.6	7.8	74	488.0	680.5
1950	13.9	7.3	191	72	18.7	20.1	29.4	6.0	91	534.9	709.5
1951	10.3	5.7	180	71	13.8	13.4	45.6	6.1	102	601.2	749.3
1952	6.6	4.2	157	69	8.8	10.7	60.4	6.4	82	657.2	717.5
1953	6.2	3.9	159	68	8.4	11.2	55.9	6.3	75	683.6	752.6
1954	6.1	4.0	155	70	7.9	9.8	58.9	5.8	81	682.9	733.6
1955	6.1	3.9	156	73	7.5	8.3	56.9	4.7	91	679.0	733.5
AVERAGES											
1935—1939	14.5	10.0	144	64	19.7	15.0	36.7	5.5			
1947—1955	9.9	5.5	182	70	13.4	15.4	40.0	6.2			
1947—1950	15.3	7.0	220	70	21.2	23.9	28.3	6.8			
1951—1955	7.0	4.3	161	70	9.2	10.7	54.6	5.8			

Table 44. ETHICAL DRUG INDUSTRY

YEAR	[illegible] CAPITAL			COMMON STOCK CAPITAL						[illegible] — 1935-39=100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES [illegible] TOTAL CAPITAL per cent	[illegible] TO [illegible] CAPITAL per [illegible]	EARNINGS RATE per cent	EARNINGS TO [illegible] per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	[illegible] NET SALES index
1935	23.9	18.7	128	79	28.5	4.6	95.4	4.4	617	88.3	84.9
1936	25.5	18.6	137	80	30.3	4.4	87.6	3.8	692	91.5	94.2
1937	24.0	17.3	139	78	29.2	5.4	83.1	4.5	540	99.4	103.7
1938	22.1	17.4	127	76	27.5	5.3	76.0	4.0	524	106.2	101.1
1939	25.0	18.5	135	78	30.5	5.4	73.2	4.0	563	114.8	116.0
1940	21.5	16.6	130	79	24.7	5.1	76.1	3.8	489	125.3	122.3
1941	21.1	13.9	152	76	26.6	7.2	72.8	5.3	369	144.1	164.2
1942	16.9	10.7	158	72	21.8	7.1	66.9	4.7	308	161.5	191.2
1943	19.9	10.4	192	72	26.1	7.1	54.4	3.9	368	175.2	252.7
1944	14.7	8.3	178	74	18.4	5.6	71.0	4.0	326	195.0	260.4
1945	14.7	8.3	177	76	17.9	4.9	66.0	3.3	362	209.0	278.0
1946	26.5	14.7	180	78	32.6	7.3	46.6	3.4	445	245.9	333.2
1947	20.4	12.4	164	78	25.4	7.3	54.2	3.9	350	301.6	372.4
1948	19.8	12.9	154	76	24.9	9.5	51.1	4.9	262	343.2	396.5
1949	17.4	11.6	150	77	21.5	7.7	54.7	4.2	277	379.8	427.4
1950	21.0	13.4	157	80	25.4	8.4	49.4	4.1	304	421.1	497.1
1951	18.8	11.7	160	79	23.0	6.6	50.2	3.3	348	507.5	610.2
1952	13.3	10.2	131	76	16.3	5.3	65.6	3.5	309	589.1	577.7
1953	10.6	8.4	127	77	12.4	4.8	79.9	3.9	256	607.6	555.4
1954	11.1	9.3	120	78	13.1	5.5	72.8	4.0	241	616.0	532.9
1955	13.4	10.7	126	79	15.9	6.0	59.2	3.6	264	639.0	578.2
AVERAGES											
1935—1939	24.1	18.1	133	78	29.2	5.0	82.3	4.1	584		
1947—1955	15.6	11.1	141	78	19.0	6.6	58.3	3.8	288		
1947—1950	19.6	12.6	156	78	24.3	8.2	52.0	4.3	297		
1951—1955	13.4	10.1	132	78	16.1	5.7	63.3	3.6	284		

Table 45. GRAIN MILL PRODUCTS INDUSTRY

	TOTAL CAPITAL			[redacted] STOCK CAPITAL						INDEXES — 1935-39 = 100	
[redacted]	EARNINGS RATE per cent	[redacted] TO SALES per cent	[redacted] TO TOTAL CAPITAL per cent	COMMON [redacted] TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL [redacted] SALES index
1935	8.3	3.0	275	66	9.6	7.8	59.2	4.6	123	97.1	106.8
1936	8.8	3.1	288	66	10.2	9.1	53.7	4.9	112	99.2	114.2
1937	4.9	1.8	270	67	4.3	4.4	126.1	5.5	98	99.6	107.7
1938	8.3	3.9	212	66	9.6	9.4	74.5	7.0	102	100.3	85.1
1939	8.5	4.1	207	67	10.3	7.9	52.6	4.2	129	103.7	86.1
1940	7.0	3.3	215	68	8.1	6.5	74.5	4.8	126	106.0	91.2
1941	8.8	3.2	274	69	10.6	9.6	54.0	5.2	110	107.9	118.5
1942	8.2	2.3	355	70	9.8	10.2	55.7	5.7	96	111.3	158.2
1943	7.7	1.8	424	68	9.4	8.4	54.8	4.6	112	121.6	206.5
1944	7.1	1.8	393	65	8.7	6.8	56.7	3.9	127	133.3	209.8
1945	8.3	2.2	372	61	11.2	7.2	46.9	3.4	156	146.8	218.8
1946	13.2	3.1	430	60	19.4	13.3	36.8	4.9	145	162.0	278.8
1947	12.0	2.4	494	61	17.6	13.2	36.4	4.8	134	179.6	355.1
1948	7.9	2.0	390	60	11.0	9.3	53.8	5.0	118	195.0	304.6
1949	9.3	2.4	383	64	12.7	10.7	48.4	5.2	119	194.2	297.5
1950	9.2	2.2	426	68	11.8	9.2	49.6	4.6	128	193.3	329.2
1951	7.9	1.7	478	71	9.7	7.5	58.0	4.4	129	204.3	390.7
1952	8.1	1.8	446	71	9.9	8.3	54.6	4.6	119	228.6	408.3
1953	7.9	1.9	409	71	9.8	8.9	52.9	4.7	110	250.6	410.6
1954	8.4	2.1	402	71	10.6	8.1	46.9	3.8	130	264.9	426.1
1955	8.4	2.2	390	72	10.6	7.9	53.3	4.2	133	276.6	431.7
AVERAGES											
1935—1939	7.8	3.1	250	66	8.8	7.8	66.2	5.2	113		
1947—1955	8.7	2.1	422	[redacted]	11.2	9.0	50.0	4.5	124		
1947—1950	9.6	2.3	422	63	13.2	10.6	46.2	4.9	124		
1951—1955	8.2	1.9	422	71	10.1	8.2	52.7	4.3	124		

Table 46. MEAT PACKING INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL [redacted] cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	4.9	1.8	267	51	4.2	9.1	62.8	5.7	46	99.2	92.8
1936	8.1	2.8	287	53	10.7	20.5	20.0	4.1	52	101.3	102.0
1937	3.5	1.1	306	55	1.5	3.0	230.5	6.9	51	101.9	109.2
1938	.2	.1	284	54	d 4.0			4.9	39	99.6	99.0
1939	4.3	1.5	284	53	4.1	9.0	47.7	4.3	45	98.0	97.6
1940	4.9	1.7	295	54	4.9	10.7	39.7	4.2	46	96.8	100.1
1941	6.7	1.8	382	56	8.0	18.2	29.6	5.4	44	96.5	129.1
1942	6.5	1.2	519	58	8.0	19.9	27.8	5.5	40	99.0	180.0
1943	6.7	1.2	543	59	8.0	18.3	26.3	4.8	44	101.8	193.8
1944	5.8	1.1	550	61	7.1	13.4	36.2	4.9	52	104.1	200.6
1945	4.2	.9	455	63	4.6	7.2	56.6	4.1	64	104.9	167.0
1946	8.3	1.9	441	66	10.9	15.6	25.6	4.1	68	106.4	164.4
1947	11.1	1.6	694	68	15.0	26.5	19.3	5.1	56	113.7	276.4
1948	4.3	.7	630	66	5.1	10.4	69.7	7.2	49	124.4	274.3
1949	3.5	.6	585	63	3.9	9.0	89.0	8.0	44	130.3	267.0
1950	5.4	.9	590	65	6.8	13.1	45.9	6.0	52	130.2	268.9
1951	3.1	.5	684	66	3.4	6.9	77.7	5.3	51	129.6	310.8
1952	3.1	.5	676	67	3.4	7.7	63.8	4.9	45	130.5	308.9
1953	6.1	1.0	635	68	7.9	15.9	30.3	4.8	50	131.2	291.9
1954	2.2	.4	625	68	2.1	3.7	135.9	5.0	57	130.5	285.7
1955	4.1	.7	583	69	5.1	8.1	46.4	3.8	62	130.8	267.1
AVERAGES											
1935—1939	4.1	1.4	286	53	3.3	7.1	73.9	5.2	47		
1947—1955	4.7	.7	633	67	5.8	11.1	49.1	5.5	52		
1947—1950	5.9	.9	622	65	7.6	15.1	43.1	6.5	50		
1951—1955	3.8	.6	641	68	4.4	8.3	56.7	4.7	53		

Table 47. OIL INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39=100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	4.9	8.3	59	82	4.6	5.7	46.1	2.6	81	93.3	89.1
1936	7.3	11.6	63	81	7.8	7.0	53.0	3.7	112	96.9	99.2
1937	9.6	13.7	70	85	10.0	9.2	50.0	4.6	108	98.6	112.1
1938	4.9	8.0	61	84	4.7	5.8	67.0	3.9	82	104.4	103.4
1939	4.9	8.9	55	83	4.9	6.3	60.3	3.8	77	106.8	95.6
1940	6.0	11.6	52	83	6.4	9.9	52.0	5.1	65	108.3	90.7
1941	7.0	11.5	61	83	7.5	11.1	53.6	6.0	67	109.8	108.1
1942	6.6	10.5	62	83	7.3	11.7	47.3	5.5	62	113.0	114.4
1943	7.2	10.1	71	83	7.9	9.3	45.1	4.2	86	117.2	135.8
1944	8.9	10.7	84	84	9.7	11.7	42.4	5.0	83	121.8	166.1
1945	7.6	9.3	82	84	8.1	8.6	48.6	4.2	94	126.5	168.1
1946	8.6	10.9	79	84	9.4	9.4	46.4	4.4	100	133.2	170.2
1947	12.3	12.4	99	82	13.9	14.7	36.2	5.3	94	147.7	238.2
1948	15.9	13.8	115	81	18.2	18.6	24.0	4.5	[redacted]	172.4	323.3
1949	10.0	10.9	92	78	11.7	14.9	41.4	6.2	79	201.4	300.6
1950	12.3	12.5	99	81	14.2	17.8	39.1	6.9	[redacted]	210.1	336.5
1951	13.7	12.8	107	82	15.6	13.1	40.6	5.3	119	228.3	397.9
1952	12.4	12.0	103	82	14.1	11.1	43.5	4.8	127	251.4	422.1
1953	12.2	12.3	100	82	14.0	12.7	42.9	5.5	110	274.2	444.0
1954	11.8	11.7	102	83	13.3	10.4	42.4	4.4	128	300.6	496.8
1955	12.0	11.7	103	85	13.8	8.9	42.1	3.7	156	329.8	550.3
AVERAGES											
1935—1939	6.3	10.2	61	83	6.4	7.0	54.5	3.8	92		
1947—1955	12.4	12.2	102	82	14.2	12.3	39.6	4.9	116		
1947—1950	12.5	12.4	101	81	14.4	16.2	34.5	5.6	89		
1951—1955	12.4	12.0	103	[redacted]	14.1	10.9	42.3	4.6	130		

Table 48. PACKAGED FOODS INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39=100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES [redacted] TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	[redacted] RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	20.6	12.2	169	94	21.5	6.3	86.7	5.5	340	90.8	87.4
1936	23.9	12.8	186	94	25.0	6.9	86.9	6.0	361	93.4	99.1
1937	15.3	7.9	193	[redacted]	16.4	5.5	110.2	6.0	299	96.9	106.6
1938	16.2	9.6	168	[redacted]	18.9	8.0	82.9	6.7	236	105.7	101.2
1939	15.3	9.3	164	77	18.5	7.1	82.5	5.9	262	113.4	105.7
1940	15.9	10.2	157	77	19.3	7.7	73.0	5.6	252	117.3	104.6
1941	14.7	8.1	182	78	17.6	8.1	71.5	5.8	217	120.8	124.8
1942	13.5	6.7	203	79	15.9	9.6	48.6	4.7	165	127.5	147.2
1943	13.6	5.8	232	80	15.9	7.6	47.7	3.6	208	139.4	184.0
1944	12.1	4.6	263	82	13.7	6.7	54.8	3.6	207	148.8	222.4
1945	11.0	4.3	259	81	12.9	5.5	62.7	3.5	232	158.6	233.4
1946	15.6	6.2	253	80	19.0	8.4	49.1	4.1	226	171.5	246.5
1947	10.6	3.9	273	76	13.1	7.8	70.2	5.4	169	190.1	295.4
1948	11.5	4.2	275	73	14.7	10.1	60.1	6.1	146	206.4	322.9
1949	12.8	4.9	259	74	16.0	11.0	50.3	5.5	146	216.7	318.9
1950	12.3	4.2	296	76	15.2	10.3	52.0	5.4	[redacted]	228.5	385.0
1951	9.3	3.1	296	74	11.6	8.7	66.4	5.8	133	250.8	421.7
1952	10.0	3.4	295	71	13.1	9.7	56.1	5.5	134	272.7	457.6
1953	10.2	3.3	313	73	13.0	8.8	57.3	5.0	149	289.4	514.7
1954	10.4	3.4	[redacted]	75	13.1	7.7	60.3	4.7	169	306.3	536.4
1955	12.3	3.8	325	78	15.1	7.7	52.9	4.1	195	311.5	575.8
AVERAGES											
1935—1939	18.1	10.3	176	86	20.1	6.7	89.1	6.0	300		
1947—1955	11.0	3.7	296	75	13.9	8.9	57.6	5.1	156		
1947—1950	11.9	4.3	276	75	14.8	9.8	57.1	5.6	152		
1951—1955	10.5	3.4	308	74	13.3	8.4	57.9	4.9	158		

Table 49. PROPRIETARY DRUG INDUSTRY

	TOTAL CAPITAL			COMMON [redacted] CAPITAL						[redacted] — 1935-39=100	
[redacted]	EARNINGS RATE per cent	EARNINGS TO [redacted] per cent	SALES TO TOTAL CAPITAL per cent	[redacted] TO [redacted] CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE [redacted] cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	[redacted] TO BOOK per cent	AVERAGE TOTAL [redacted] index	ANNUAL NET SALES index
1935	27.5	22.4	122	100	27.5	7.6	80.8	6.1	364	94.8	79.2
1936	32.9	24.2	136	99	33.3	8.0	70.0	5.6	415	98.8	91.7
1937	32.6	21.8	150	94	32.7	8.4	83.9	7.1	388	100.4	102.7
1938	30.7	19.7	155	93	33.0	8.9	70.2	6.3	370	99.8	105.8
1939	31.6	19.0	166	94	33.3	7.9	66.9	5.3	421	106.3	120.6
1940	31.8	18.8	169	93	34.0	8.5	67.3	5.7	401	113.2	130.8
1941	28.1	15.2	185	91	30.4	9.2	69.4	6.4	329	122.7	155.2
1942	23.1	10.4	222	91	25.3	8.7	70.6	6.1	291	128.6	194.7
1943	26.4	10.5	251	84	31.1	9.2	51.4	4.7	339	148.6	255.1
1944	19.2	8.2	233	87	22.9	7.1	58.4	4.2	320	185.1	295.1
1945	18.0	7.2	249	80	21.8	6.1	60.0	3.7	358	217.2	368.4
1946	21.6	9.1	238	77	27.4	6.5	50.0	3.2	424	264.8	430.6
1947	15.3	7.1	215	78	18.9	6.5	69.3	4.5	288	302.5	444.1
1948	17.6	8.5	208	77	22.0	9.7	61.5	6.0	226	330.4	468.6
1949	17.3	8.8	196	76	21.9	9.5	61.3	5.8	230	358.3	477.9
1950	17.8	8.9	200	77	22.4	10.2	63.8	6.5	220	375.1	511.4
1951	15.4	7.0	219	78	18.9	8.1	67.9	5.5	233	392.1	587.0
1952	14.6	7.0	209	79	17.6	8.2	64.5	5.3	216	411.1	585.4
1953	14.8	7.2	206	79	18.1	8.5	64.6	5.5	212	432.5	606.5
1954	17.6	8.4	209	82	20.9	8.0	61.6	4.9	261	449.0	640.4
1955	20.2	9.3	218	83	23.7	7.2	59.7	4.3	328	471.8	701.5
AVERAGES											
1935—1939	31.1	21.2	146	96	32.0	8.2	74.0	6.0	392		
1947—1955	16.8	8.0	209	79	20.5	8.3	63.3	5.2	248		
1947—1950	17.1	8.4	204	77	21.4	8.9	63.6	5.7	239		
1951—1955	16.6	7.8	212	80	20.0	7.9	63.1	5.0	253		

Table 50. RUBBER INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	5.1	5.3	97	25	5.4	7.3	9.6	.7	73	96.0	85.0
1936	8.0	7.2	111	28	18.4	15.5	10.6	1.6	119	98.1	99.4
1937	5.6	4.6	124	31	8.4	6.3	75.0	4.7	133	100.3	113.1
1938	3.0	3.0	99	31	d 1.3			1.6	101	102.0	92.1
1939	7.0	6.0	116	31	9.1	8.8	31.4	2.8	104	103.8	110.2
1940	7.2	5.5	130	34	12.2	17.4	20.7	3.6	70	104.4	124.3
1941	11.4	6.3	182	37	22.5	42.5	21.7	9.2	53	108.0	179.5
1942	10.3	5.0	207	41	19.3	37.2	13.4	5.0	52	111.9	211.4
1943	10.9	3.5	307	45	18.3	22.9	22.6	5.2	80	116.0	324.9
1944	10.6	3.2	328	49	16.7	17.5	24.6	4.3	95	121.7	364.4
1945	8.5	2.8	306	52	12.2	10.7	33.3	3.6	114	128.0	357.5
1946	17.7	7.0	254	55	28.1	26.4	23.5	6.2	107	141.1	327.1
1947	11.5	4.8	240	55	17.8	25.1	31.7	7.9	71	167.5	366.9
1948	10.8	5.0	215	54	16.9	29.4	30.4	9.0	57	189.7	371.7
1949	6.8	3.6	188	56	9.5	18.3	47.7	8.7	52	197.1	337.9
1950	12.8	5.4	236	59	19.5	28.8	27.9	8.1	68	205.2	442.6
1951	12.9	4.6	277	62	18.8	20.3	31.6	6.4	92	224.2	566.5
1952	10.3	4.2	243	60	15.1	15.4	35.5	5.5	[redacted]	257.3	570.7
1953	10.7	4.6	231	61	15.7	16.8	32.2	5.4	94	283.3	598.6
1954	9.6	4.8	201	64	13.3	10.6	37.0	3.9	125	297.0	545.2
1955	11.1	4.9	226	67	15.3	9.3	35.0	3.2	165	322.3	664.7
AVERAGES											
1935—1939	5.7	5.2	109	29	7.8	7.3	35.4	2.6	107		
1947—1955	10.7	4.7	228	61	15.6	15.6	33.7	5.2	100		
1947—1950	10.5	4.8	219	56	15.9	25.8	32.5	8.4	62		
1951—1955	10.8	4.6	233	63	15.5	13.0	34.2	4.5	119		

Table 51. TEXTILE FABRIC INDUSTRY

	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39 = 100	
[redacted]	[redacted] RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS [redacted] per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	3.9	3.4	112	100	3.9	6.8	71.4	4.9	57	101.2	93.8
1936	6.9	5.4	128	100	6.9	7.9	86.3	6.8	[redacted]	102.3	108.5
1937	2.6	1.7	156	92	2.5	3.3	143.5	4.7	76	100.9	101.4
1938	.5	.4	137	92	.2	.4	900.0	3.8	52	98.7	87.5
1939	8.3	4.8	174	93	8.7	13.9	35.4	4.9	63	97.1	108.8
1940	7.3	4.1	178	92	7.5	12.3	43.5	5.4	61	99.5	114.2
1941	12.6	5.5	229	91	13.6	22.1	26.1	5.8	61	109.0	161.0
1942	13.6	5.3	256	90	14.9	26.4	29.4	7.8	56	122.2	201.8
1943	11.7	4.6	256	89	12.8	18.2	36.1	6.6	71	138.6	229.0
1944	11.1	4.8	232	89	11.9	14.1	35.8	5.0	85	153.1	229.0
1945	10.5	4.9	214	[redacted]	11.3	9.0	37.6	3.4	125	166.1	229.2
1946	27.6	11.7	237	84	31.8	21.0	22.9	4.8	151	200.3	298.8
1947	28.7	11.8	244	85	32.9	29.3	26.4	7.7	113	267.1	416.3
1948	29.4	12.4	236	86	33.6	35.7	29.2	10.4	94	336.7	508.9
1949	11.9	6.3	188	86	13.4	19.0	46.8	8.9	70	394.5	474.6
1950	14.1	7.2	196	87	15.8	18.0	37.5	6.7	[redacted]	425.3	532.8
1951	10.3	5.4	193	83	11.9	12.6	48.5	6.1	94	482.9	595.9
1952	5.5	3.0	181	[redacted]	6.4	7.9	74.4	5.9	[redacted]	538.6	625.6
1953	6.2	3.5	177	79	7.2	10.6	58.6	6.2	68	563.0	636.6
1954	4.6	2.9	159	79	5.4	7.7	69.0	5.3	70	587.2	599.5
1955	6.9	4.1	170	70	9.0	10.7	42.9	4.6	84	637.6	693.6
AVERAGES											
1935—1939	4.3	3.0	144	95	4.4	6.5	78.1	5.1	67		
1947—1955	11.0	5.9	[redacted]	81	13.1	15.9	41.9	6.7	83		
1947—1950	19.8	9.3	212	86	22.5	25.3	33.1	8.4	89		
1951—1955	6.6	3.8	175	78	7.9	10.0	56.1	5.6	79		

Table 52. TOILET PREPARATIONS AND SOAP INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	[redacted] TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per [redacted]	[redacted] CAPITAL index	[redacted] index
1935	13.7	10.4	131	73	14.4	5.4	67.2	3.6	266	95.2	81.6
1936	11.7	8.1	144	74	13.6	5.4	69.2	3.7	252	98.5	92.3
1937	15.3	8.9	171	75	18.6	6.9	74.4	5.1	270	101.3	113.1
1938	10.1	6.2	162	76	11.5	5.0	79.4	3.9	230	103.7	109.5
1939	16.6	10.6	156	80	19.2	7.1	51.2	3.6	272	101.4	103.5
1940	18.4	11.5	160	85	20.8	7.6	65.0	5.0	273	100.5	104.8
1941	17.9	10.8	166	[redacted]	20.7	9.0	63.9	5.8	228	105.7	114.2
1942	15.4	8.0	191	87	16.9	9.1	51.0	4.6	186	111.1	138.5
1943	13.0	6.4	202	88	14.1	7.0	58.4	4.1	201	117.7	155.1
1944	11.3	5.6	203	89	12.2	6.0	72.4	4.3	205	123.3	163.3
1945	11.5	5.5	210	90	12.1	5.3	67.1	3.5	229	124.0	169.6
1946	16.2	8.2	197	93	17.2	7.4	57.0	4.2	231	125.9	161.9
1947	26.9	8.9	302	94	28.4	14.1	46.2	6.5	k 201	142.7	281.5
1948	23.5	7.7	305	95	24.7	14.4	43.6	6.3	172	168.4	335.0
1949	11.9	4.4	269	95	12.3	7.3	81.0	5.9	168	182.2	319.6
1950	21.4	9.1	235	95	22.2	11.1	48.9	5.4	200	195.3	299.7
1951	14.1	5.3	266	92	15.3	7.2	57.9	4.2	212	221.5	384.8
1952	11.3	4.9	230	86	12.9	6.9	57.6	4.0	186	251.1	377.5
1953	10.9	4.9	222	84	12.7	7.3	55.7	4.1	174	271.3	393.1
1954	12.5	5.6	224	85	14.4	6.9	58.3	4.0	209	285.3	416.2
1955	12.9	5.8	224	85	14.9	6.4	58.1	3.7	232	303.5	444.0
AVERAGES											
1935—1939	13.5	8.8	153	75	15.5	6.0	66.9	4.0	258		
1947—1955	15.1	6.1	247	[redacted]	16.7	8.5	54.8	4.7	197		
1947—1950	20.5	7.5	275	95	21.5	11.6	51.5	6.0	185		
1951—1955	12.3	5.3	232	86	14.1	6.9	57.6	4.0	203		

Chapter 8

COMMENTS ON PRODUCERS' CAPITAL GOODS GROUP

Industries

Four industries comprise the Producers' Capital Goods Group. In Table 53 total capital and net sales for 1955 are set forth for each industry, for the companies within each industry, and for the group [illegible] a whole. The percentage which each industry's total capital and net sales was of the group's total capital and net sales for 1955 is also shown.

A wide spread exists between the smallest and largest industry. The range for total capital was from 10% to 42% and for sales from 7% to 40%. The relative importance of an industry may differ considerably when measured from one base rather than the other. Note that whereas the Aircraft Industry accounted for less than 17% of the aggregate capital and ranked third on this basis, it accounted for almost 40% of group sales and stood first in this regard. As pointed out in Chapter 4, the Aircraft Industry has had very substantial fluctuations in earnings due largely to noneconomic factors. This fact should be borne in mind in appraising the earnings experience of the group as a whole.

The selection of the companies constituting the Agricultural Machinery Industry represents a slight modification of the basic sampling procedure discussed in Chapter 2. Also the composition of the Aircraft Industry in 1955, because of mergers and "spin-offs," is not indicative of the companies included in that industry for most of the years over the 1935–55 period. Accordingly, a brief explanation of the composition of these two industries will be helpful before turning to the earnings characteristics of the group.

Agricultural Machinery Industry. The original Securities & Exchange Commission classification of "Agricultural Machinery and Tractors" included seven companies that were listed on the New York Stock Exchange as of December 31, 1950. With the exception of Caterpillar Tractor Company, which is primarily a manufacturer of heavy-duty crawler-type tractors, road machinery, and earth-moving equipment, each of the seven listed companies manufactures a full line of farm equipment. Therefore, the industry title was narrowed to "Agricultural Machinery" and Caterpillar was excluded. The firms comprising the sample were then selected from the six remaining companies.

Aircraft Industry. For the years 1935–53 the Aircraft Industry included the following seven companies:

Boeing Airplane Company
Consolidated Vultee Aircraft Corporation
Curtiss-Wright Corporation
Douglas Aircraft Company, Inc.
Lockheed Aircraft Corporation
North American Aviation, Inc.
United Aircraft Corporation

On April 30, 1954, Consolidated Vultee Aircraft Corporation was merged with General Dynamics Corporation and became the latter's Convair Division. After the merger the Convair Division accounted for approximately 75% of the Corporation's gross income. Therefore, General Dynamics Corporation has been included in the Aircraft Industry in 1954 and 1955.

United Aircraft spun-off its Chance-Vought Division in 1954 by creating a wholly owned subsidiary—Chance Vought Aircraft, Inc.—and distributing the latter's stock to United Aircraft's stockholders. To provide maximum continuity in the industry series, Chance Vought Aircraft, Inc. is included in 1954 and 1955.

EARNING POWER

Earnings Rates [illegible] Total Capital

Period Comparison. In the following tabulation the earnings rates

Table 53. PRODUCERS' CAPITAL GOODS GROUP

Total Capital and Net Sales by Industries and Companies
1955

Industry and Company	Total Capital		Net Sales	
	Company	Industry	Company	Industry
	(millions)		(millions)	
Electrical Supplies & Equipment				
Westinghouse Electric Corp.	$1,109.0		$1,441.0	
General Electric Co.	1,091.0		3,442.5	
Total		$2,200.0		$4,883.5
Per cent of Group		(41.5%)		(37.1%)
Agricultural Machinery				
International Harvester Co.	$ 826.3		$1,165.8	
Deere and Company	390.0		339.6	
Allis-Chalmers Mfg. Co.	363.9		535.1	
J. I. Case Company	118.9		94.8	
Total		1,699.1		2,135.3
Per cent of Group		(32.0%)		(16.2%)
Aircraft				
United Aircraft Corp.	$ 156.3		$ 697.9	
Curtiss-Wright Corp.	146.2		508.7	
General Dynamics Corp.	141.0		687.3	
Douglas Aircraft Co., Inc.	118.2		867.5	
Boeing Airplane Co.	108.2		853.8	
Lockheed Aircraft Corp.	106.9		673.6	
North American Aviation, Inc.	80.6		816.7	
Chance-Vought Aircraft, Inc.	24.2		147.1	
Total		881.6		5,252.6
Per cent of Group		(16.6%)		(39.9%)
General Industrial Machinery & Equipment				
Ingersoll-Rand Co.	$ 117.3		$ 145.4	
Worthington Corporation	92.3		140.9	
Combustion Engineering, Inc.	78.7		135.8	
Fairbanks, Morse & Co.	70.3		111.9	
Link-Belt Company	67.9		129.5	
Blaw-Knox Company	57.4		119.2	
American Chain & Cable Co., Inc.	43.3		101.1	
Total		527.2		883.8
Per cent of Group		(9.9%)		(6.7%)
Group Total		$5,307.9		$13,155.2

on total capital for each industry and for the group are set forth for selected periods.

Industry	Earnings Rates on Total Capital				
	1951-55	1947-50	1947-55	1935-39	1955
Aircraft	19.1%	4.7%	13.8%	13.8%	22.9%
Electrical Supplies & Equipment	13.0	14.6	13.6	10.0	11.3
General Industrial Machinery	12.2	15.9	13.5	9.6	11.5
Agricultural Machinery	7.4	11.8	8.9	8.2	6.7
Group	12.0	12.3	12.1	9.5	11.8

Several broad observations may be made. First, the composite earnings rates for each of the postwar periods were higher than for the prewar period. With the exception of Aircraft in 1947-50 and Agricultural Machinery in 1951-55, the same was true of each industry. Second, the range between the industry with the lowest and with the highest earnings rate was greater in each postwar period than in 1935-39. Third, there has been little shifting of positions among the industries. In both the 1951-55 period and the 1947-55 period the rankings are the same as in 1935-39.

In view of the generally higher postwar earnings rates, what is the extent of the postwar improvement? The percentage changes of each industry's earnings rates in the postwar periods from the 1935-39 average are as follows:

Industry	Percentage Change from 1935-39 Average			
	1951-55	1947-50	1947-55	1955
Aircraft	+38%	-66%	0%	+66%
Electrical Supplies & Equipment	+30	+46	+37	+13
General Industrial Machinery	+27	+66	+41	+20
Agricultural Machinery	-10	+44	+ [illegible]	-18

The comparisons are interesting. In 1947–50, 1951–55, and 1955 the rankings were the same on the basis of both level of earnings and percentage improvement. Furthermore, in terms of earnings levels the rankings were the same in the 1951–55 and 1935–39 periods. Thus, those industries which had the highest earnings rates in 1935–39 also had the most improvement in 1951–55. This fact is contrary to that found in certain other groups.

Although no shifts occurred in ranking, there were wide differences in the extent of improvement in each postwar period. Excluding Aircraft, General Industrial Machinery showed the most improvement in 1947–50 and in 1955, and Electrical Supplies & Equipment in 1951–55. Agricultural Machinery had the least improvement in each period and in fact in 1951–55 had a lower earnings rate than in 1935–39.

Again excluding Aircraft, the changes in 1955 over 1935–39 were small. The 1955 rates for General Industrial Machinery and Electrical Supplies and Equipment were less than 20% above the 1935–39 average while Agricultural Machinery's 1955 rate was 18% lower.

Trends. Although earnings rates are generally higher in the postwar periods than prewar, it may be seen from Chart 32 that no substantial trend exists for any of the industries in the group. This observation was confirmed by fitting trend lines for the 1935–55 period for each industry.

Stability. From Chart 32 it is apparent that the Aircraft Industry's earnings rates fluctuated widely over the twenty-one-year period. In contrast, the cyclical fluctuations of the three other industries are much less pronounced and are fairly comparable to each other.

The volatility of each industry's earnings rates on total capital for the 1935–55 period was measured in terms of deviations from their 1935–55 trends. Next to Aircraft, Agricultural Machinery was found to be the most unstable industry in the group. It was followed by General Industrial Machinery and then by Electrical Supplies & Equipment, which were closely comparable.

Profit Margins

As may be observed from Chart 33 the composite profit margin was characterized by a sweeping downward movement to 1945 followed by erratic recovery. Although in a number of years wide differences existed in the profit margins of specific industries, most of the industries roughly conformed to this same general pattern.

Industry	[illegible] Margins				
	1951–55	1947–50	1947–55	1935–39	1955
General Industrial Machinery	6.2%	8.7%	7.0%	11.1%	6.8%
Electrical Supplies & Equipment	5.4	7.2	6.0	11.0	5.1
Agricultural Machinery	5.2	7.3	6.0	10.6	5.3
Aircraft	3.0	2.2	2.9	9.8	3.8
Group	4.6	6.5	5.1	10.8	4.8

It may be seen from the above tabulation that in no postwar period was any industry's profit margin equivalent to its prewar level. Comparing 1951–55 to 1935–39, the group as a whole encountered a decline of 57%. Aircraft's drop of nearly 70% was the most severe. Agricultural Machinery and Electrical Supplies & Equipment suffered declines in excess of 50%, and General Industrial Machinery experienced a drop of 44%. However, there has been some improvement since 1953. With the exception of Electrical Supplies & Equipment, each industry's 1955 ratio was slightly higher than its 1951–55 average.

As in the case of earnings rates on total capital, there was little shifting of positions among the industries. In each period General Industrial Machinery had the highest profit margin and Aircraft the lowest. Electrical Supplies & Equipment and Agricultural Machinery were alternately in second and third positions.

Capital Turnover

Period Comparison. Both Chart 34 and the following tabular comparisons indicate that the group, as well as each of the four industries, turned its total capital at a substantially faster rate in each postwar period than in 1935–39.

Chart 32. PRODUCERS' CAPITAL GOODS

Earnings [redacted] on Total Capital by Industries
1935–1955

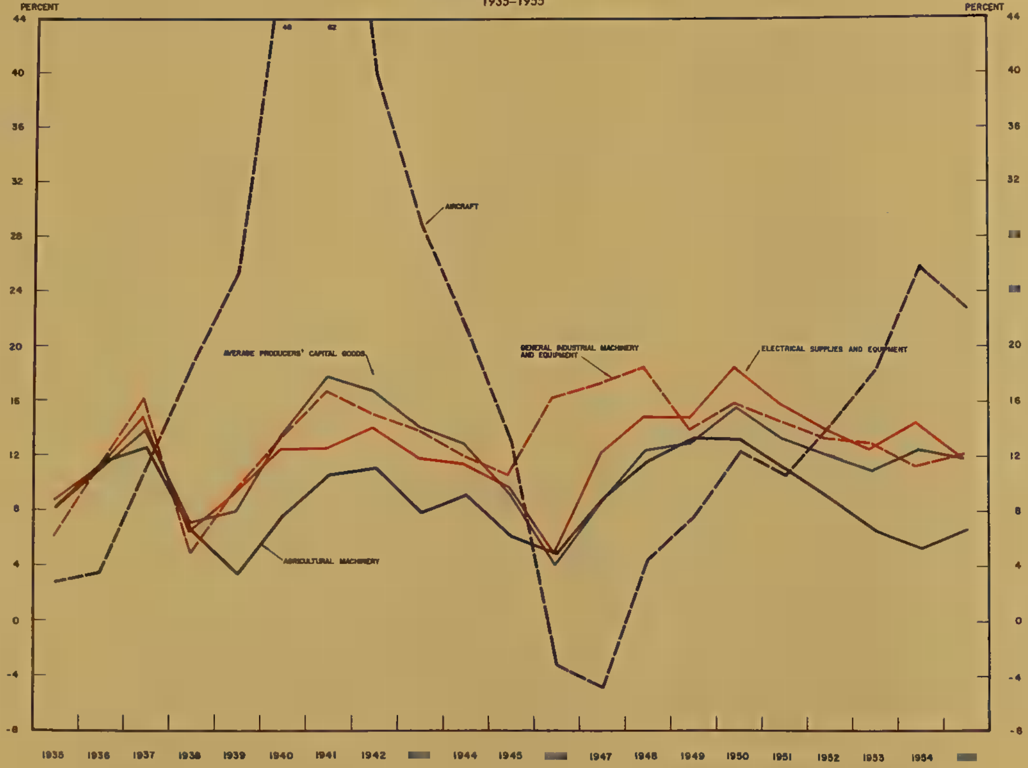


Chart 33. PRODUCERS' CAPITAL GOODS

Earnings Available Total Capital to Sales by Industries
1935–1955

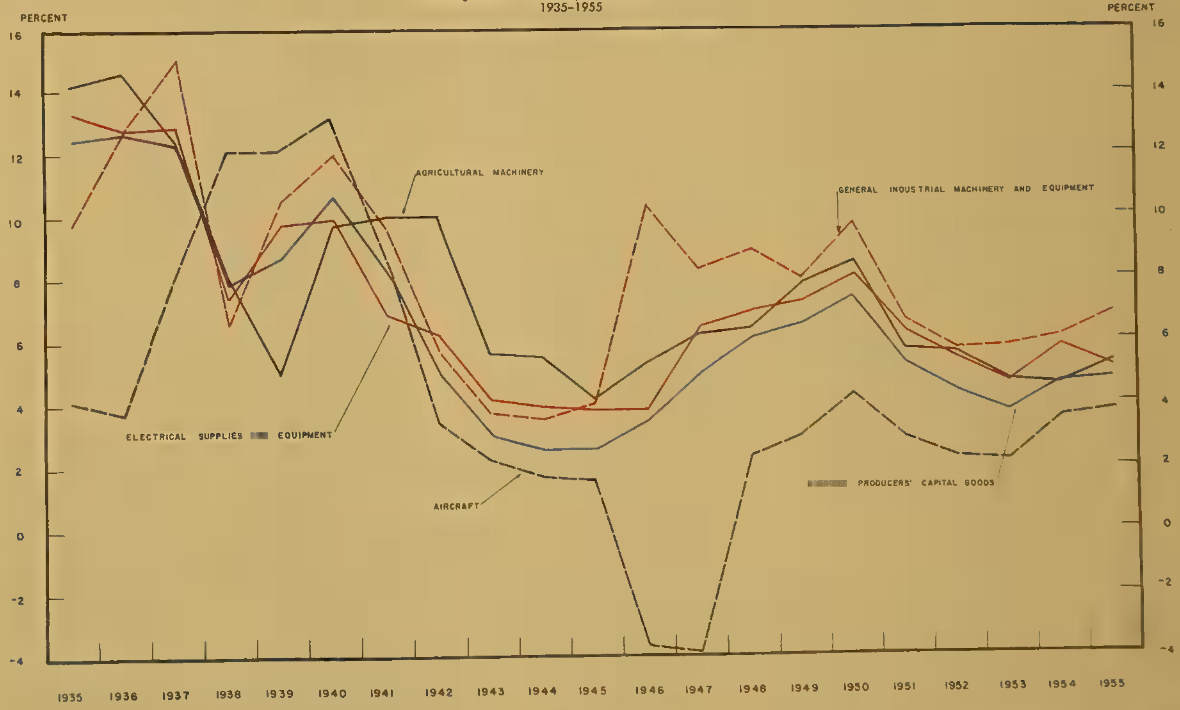
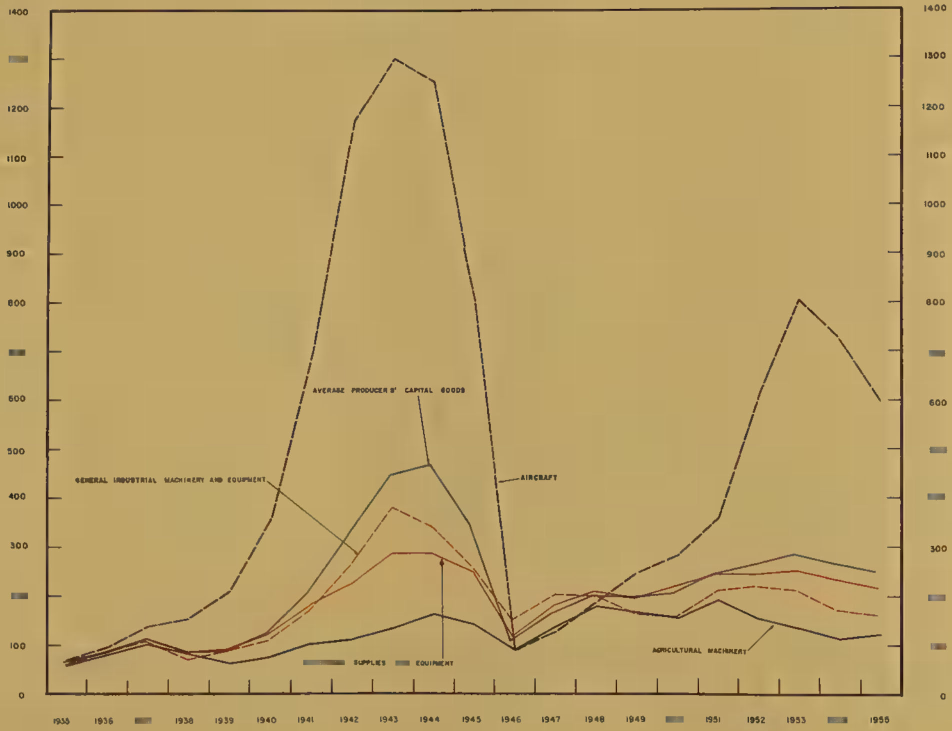


Chart 34. PRODUCERS' CAPITAL GOODS

Sales to Total Capital by Industries
1935–1955



Industry	Sales to Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Aircraft	629%	213%	474%	141%	596%
Electrical Supplies & Equipment	242	204	228	91	222
General Industrial Machinery	197	183	192	86	168
Agricultural Machinery	143	161	149	78	126
Group	260	190	235	87	248

Across the several periods there were no changes in the relative positions of the four industries. Aircraft was the top-ranking industry in each span while Agricultural Machinery was consistently at the bottom of the ladder. However, the spread among the industries widened, for even though all industries increased their turnover, the leaders in 1935–39 were also the leaders in improvement.

Excluding Aircraft, the industry patterns are similar and, with the exception of the war years, lie within a fairly narrow band. In view of the sharp decline in profit margins over the 1935–55 period, the higher postwar earnings rates can only be due to improved sales-to-total-capital relationships. It is to be noted, however, that whereas profit margins, for the most part, showed improvement in the last two years, the reverse was true of sales-to-total-capital ratios.

Growth in Sales and Total Capital. To supplement the foregoing discussion of the relationships of sales to total capital, Table 54 sets forth indexes (1935–39 equals 100) of each industry's sales and total capital for selected periods.

As was to be expected, the Aircraft Industry had by far the greatest growth in both sales and total capital. This growth was to be anticipated in view of (1) the fact that the original companies in this industry began operations in the late 1920's or early 1930's with modest capital bases and (2) the tremendous impact of World War II and subsequent developments.

Interestingly, the relative rankings of the three remaining industries are the same in each period in terms of growth in both sales and total capital. That is, the industry which had the most growth in one factor also had the most growth in the other. To illustrate, the greatest growth on both bases and in each period was enjoyed by Electrical Supplies and Equipment while Agricultural Machinery had the least growth on both scores in every period.

Table 54. PRODUCERS' CAPITAL GOODS GROUP

Comparative Industry Performance
Indexes of Sales and Total Capital
Selected Periods

Industry	1951–55	1947–50	1935–39	1955
	Index of Sales			
Aircraft	3,796.5	953.4	100.0	4,822.4
Electrical Supplies & Equipment	869.8	519.8	100.0	913.7
General Industrial Machinery	682.8	448.7	100.0	676.4
Agricultural Machinery	506.0	379.6	100.0	498.9
	Index of Total Capital			
Aircraft	854.2	632.0	100.0	1,144.8
Electrical Supplies & Equipment	328.1	232.0	100.0	375.2
General Industrial Machinery	299.1	211.6	100.0	348.0
Agricultural Machinery	275.3	182.8	100.0	307.8

Earnings Rates on Common-Stock Capital

Common Stock as a Percentage of Total Capital. For the group the ratio of common stock to total capital remained remarkably constant from one period to another throughout the twenty-one-year span. In 1935–39 common stock comprised 85% of total capital, in 1947–50 it was 80%, and in 1951–55 and 1955 approximately 82%.

Industry	Common Stock Per Cent of Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Aircraft	94%	93%	94%	96%	92%
General Industrial Machinery	87	85	86	73	85
Electrical Supplies & Equipment	83	75	80	96	82
Agricultural Machinery	75	79	77	74	75
Group	82	80	82	85	82

As exemplified by the 1951–55 range of from 75% to 94%, fairly wide differences existed in each period between the lowest and highest ratio of common stock to total capital.

Two industries—Aircraft and Agricultural Machinery—maintained very stable capital proportions, while the other two had moderate changes. General Industrial Machinery, with ■ rise in common stock proportions from 73% in 1935–39 to 87% in 1951–55, had the most pronounced shift. Electrical Supplies & Equipment, which also had a significant change but in the opposite direction, reduced the common stock ratio from a prewar 96% to a 1951–55 level of 83%.

Comparative Return ■ Common and on Total Capital. To determine the effect of the differences in leverage on the rate of return on common stock relative to the return on total capital, Table 55 was prepared.

In the Aircraft Industry common stock constituted such a high percentage of total capital that for all practical purposes no leverage existed. Consequently, the returns on common and on total capital were always close together. In this connection ■ peculiar situation is to be mentioned. In 1935–39, when the earning level was high, the earnings rate on common stock was lower than on total capital. The explanation is that Curtiss-Wright Corporation had ■ $1 par preferred issue upon which dividends have been paid up to as high ■ $2 per share or 200% of the amount at which it is carried on the Corporation's balance sheet. In contrast, in 1947–50, when the earnings level was low, the return on common was again lower than on total capital. In this instance, it was due to "reverse leverage" arising from a combination of Curtiss-Wright's preferred requirements and the senior charges of other companies in the industry.

For the other industries, the extent of their leverage was not sufficient to create any marked spread between the return on common stock and on total capital. Furthermore, the amount of and the changes in leverage had only a slight effect on the ranking of the industries. Although Agricultural Machinery's greater leverage raised its earnings rate on common stock relative to its return on total capital higher than for the other industries, it still remained the lowest earner.

The postwar changes in leverage for Electrical Supplies & Equipment and General Industrial Machinery were sufficient to alter their positions only slightly. For example, in 1935–39 Electrical Supplies & Equipment ranked second on the basis of return on total capital and third in terms of earnings rate on common stock. In 1951–55 it stood in second position on both bases.

In no instance did leverage cause either the trend or the stability of the earnings rates on common stock (Chart 35) to be substantially different from that on total capital.

Summary

The preceding discussion of earning power developed five facts. (1) Each

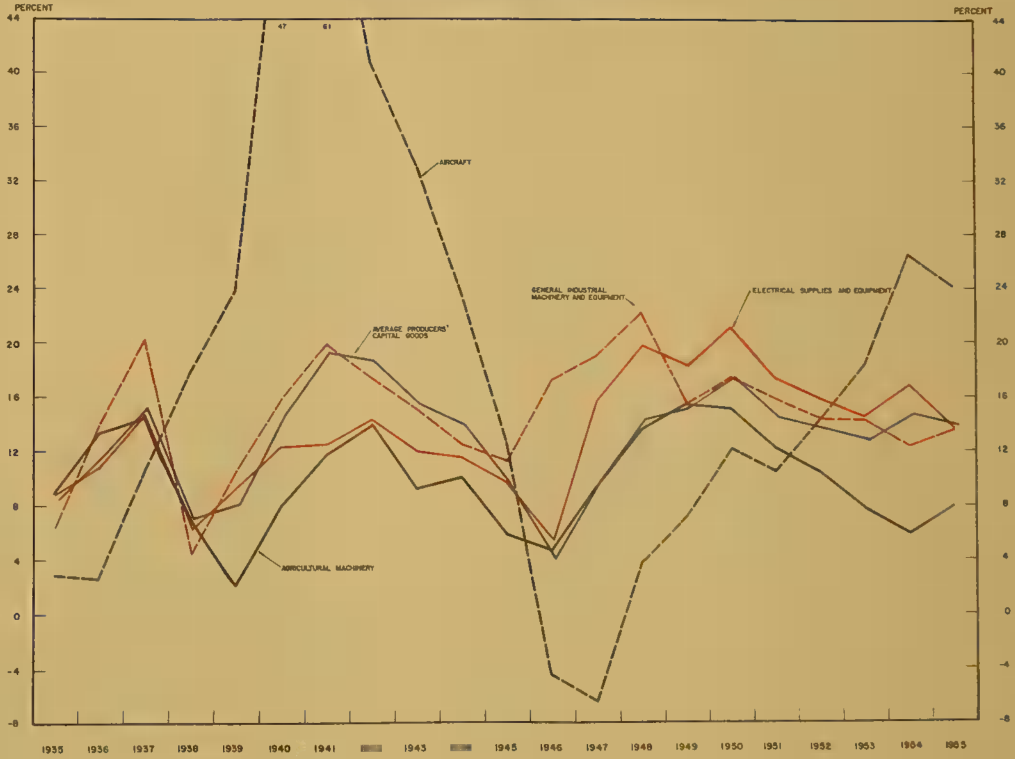
Table 55. COMPARATIVE INDUSTRY PERFORMANCE

Earnings Rates on Common Stock and Total Capital for Selected Periods
Industries Ranked According to 1951–55 Average

Industry	1951–55		1947–50		1947–55		1935–39		1955	
	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital
Aircraft	19.7%	19.1%	4.3%	4.7%	14.0%	13.8%	13.0%	13.8%	24.3%	22.9%
Electrical Supplies & Equipment	15.3	13.0	18.9	14.6	16.6	13.6	10.3	10.0	13.4	11.3
General Industrial Machinery	13.7	12.2	18.3	15.9	15.4	13.5	11.2	9.6	13.2	11.5
Agricultural Machinery	8.7	7.4	13.7	11.8	10.5	8.9	8.9	8.2	7.9	6.7
Group	13.9	12.0	14.6	12.3	14.1	12.1	10.0	9.5	13.8	11.8

Chart 35. PRODUCERS' CAPITAL GOODS

Earnings Rates on Common Stock Capital by Industries
1935–1955



industry, except Agricultural Machinery, had higher postwar earnings rates than in 1935–39. (2) The industries with the highest earnings rates in 1935–39 enjoyed the greatest postwar improvement. (3) Because every industry suffered a severe drop in profit margins, the improved postwar earnings rates are due entirely to improved capital turnover. (4) Each industry enjoyed a substantial growth in both sales and total capital over the 1935–55 period. (5) Due to limited differences and changes in leverage, the return on common stock was not substantially different from that on total capital.

MARKET VALUATION

Earnings-Price Ratios

The group's historical earnings-price ratio record is characterized by three major features: (1) extremely sharp cyclical fluctuations, (2) wide differences between the industry levels, and (3) substantially higher postwar than prewar ratios (Chart 36).

The extent of the differences in levels and the changes between periods may be more easily visualized from the following comparison by periods.

Industry	Earnings-Price Ratios					
	1951–55	1947–50	1947–55	1935–55	1935–39	[illegible]
Electrical Supplies & Equipment	6.9%	12.8%	8.4%	7.1%	4.1%	4.3%
General Industrial Machinery	10.7	16.6	12.6	10.9	5.6	8.1
Agricultural Machinery	11.2	18.1	13.6	11.7	8.0	9.3
Aircraft	14.6	7.0	13.0	14.9	4.3	11.6
Group	9.0	13.8	10.3	9.3	5.0	6.6

With the exception of 1947–50, Electrical Supplies & Equipment had the lowest earnings yield (highest multiplier) in each period. In most instances the difference between its yield and that of the next lowest industry—General Industrial Machinery—was substantial. Although Aircraft had one of the lowest prewar earnings-price ratios (highest multiplier), due in part to low earnings in 1935 and 1936, it has had the highest earnings-price ratios of the group in recent years.

In 1951–55 and 1955 the earnings yield was roughly three times that for 1935–39.

Taking as a measure of change the relationship of each industry's 1951–55 earnings-price ratio to its 1935–55 average, the gains in market valuation were small and strikingly similar for all four industries. However, if the 1955 earnings-price ratios are computed as a percentage of the 1935–55 average, the substantial declines in earnings yields (increases in multipliers) and marked differences between industries are revealed:

Electrical Supplies & Equipment	60%
General Industrial Machinery	74
Aircraft	78
Agricultural Machinery	79

In terms of cyclical fluctuations, the earnings yields of the Aircraft Industry were much more volatile than those of the other three industries. Based on measurement in terms of deviations from the 1935–55 means, the fluctuations of the remaining three industries were roughly similar.

Payout Rates

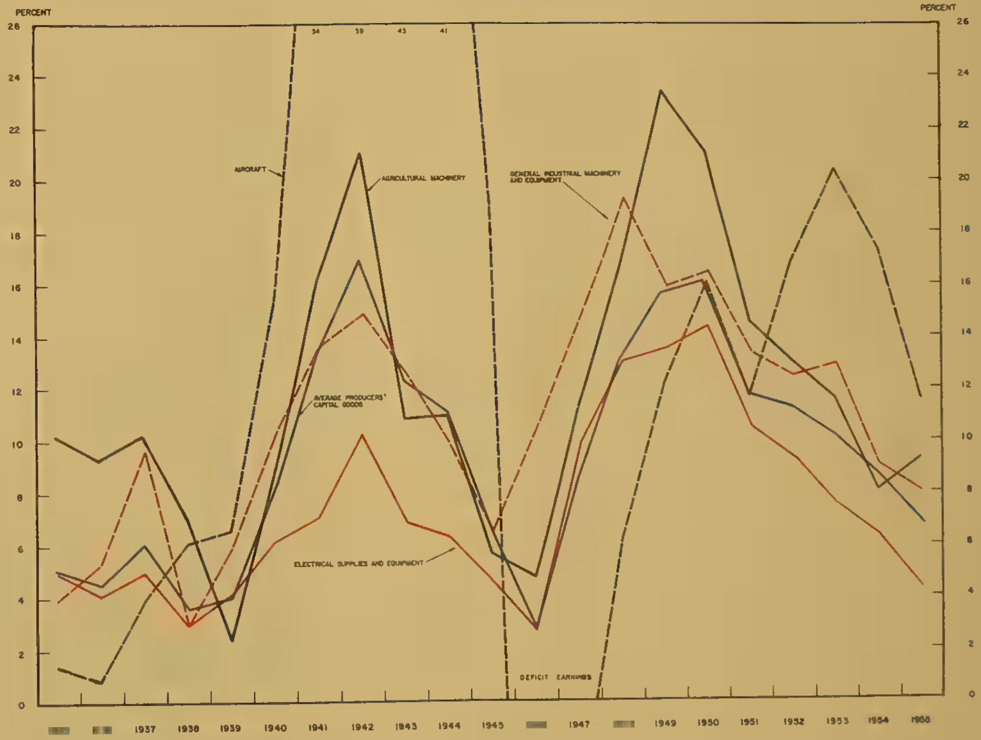
Prior to 1948 there were sharp changes in the group's payout rates and wide differences between the industries. Since that time, distribution rates, with the exception of those for Aircraft, have become more stable and much closer together.

Industry	Per Cent of Earnings Paid Out in Dividends					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Electrical Supplies & Equipment	60.3%	44.6%	54.2%	61.0%	84.3%	73.9%
General Industrial Machinery	59.1	46.3	53.0	55.9	78.3	61.4
Agricultural Machinery	54.6	38.3	47.0	45.1	39.9	56.4
Aircraft	42.3	116.9	50.8	43.7	51.5	44.3
Group	54.8	46.8	51.9	53.2	67.1	60.0

The preceding comparison by periods shows that the composite payout rate was lower in each period than in 1935–39. The same is also true of Electrical Supplies & Equipment and General Industrial Machinery. Because of deficit earnings in one of the years in the 1947–50 period,

Chart 36. PRODUCERS' CAPITAL GOODS

Earnings-Price Ratios by Industries
1935–1955



Aircraft had its highest payout in that span but in all other periods its payout rates were lower than in 1935–39. In contrast, Agricultural Machinery had a higher distribution rate in every period, except 1947–50, than in 1935–39.

Putting aside Aircraft's distorted 1947–50 figure, Electrical Supplies & Equipment and General Industrial Machinery had the highest payout rates throughout. Agricultural Machinery and Aircraft alternated their positions across the periods with the former paying out a slightly higher average percentage of earnings in cash dividends over the twenty-one-year span. For the 1935–55 period their distribution rates were well below those of the other two industries.

Dividend Yields

A graphic presentation of the group's dividend yields across time (Chart 37) establishes three facts of a general nature. (1) With the exception of Aircraft, the dividend yields of the industries moved fairly closely together. (2) The definite upward movement in yields from 1935 to 1950 was followed by an unsteady decline to 1955. (3) The range in the yields between industries is substantial.

On a period basis Electrical Supplies & Equipment's postwar yields were considerably lower than those of the other industries. Agricultural Machinery had the next lowest yield in each period, except 1955 when it had the highest. With the exception of 1955, Aircraft and General Industrial Machinery were the high yielders in each postwar period.

Industry	Dividend Yields					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Electrical Supplies & Equipment	4.2%	5.7%	4.5%	4.3%	3.5%	3.2%
Agricultural Machinery	6.1	6.9	6.4	5.3	3.2	5.2
Aircraft	6.2	8.2	6.6	6.5	2.2	5.1
General Industrial Machinery	6.2	7.7	6.7	6.1	4.4	5.0
Group	4.9	6.5	5.3	4.9	3.4	3.9

Based on a comparison of each industry's 1951–55 yield to its average for the entire 1935–55 period, both Electrical Supplies & Equipment and Aircraft showed very modest gains, General Industrial Machinery had a slightly higher yield, while Agricultural Machinery's postwar yield was 15% higher than its 1935–55 average. However, if 1955 yields are compared to the 1935–55 averages, marked changes appear. Except for Agricultural Machinery, every industry's yield was substantially lower.

Market Value to Book Value

The composite relationship of market value to book value of common stock shows a jagged but fairly sharp downward trend to 1949, followed by recovery in each subsequent year except 1952 (Chart 38). The increases in 1954 and 1955 were substantial.

Excluding Aircraft, which cuts across each of the other industries, the relative positions of the industries may be clearly determined from Chart 38. It is impressive to note that in each year over the twenty-one-year span, Electrical Supplies & Equipment had the highest market-to-book relationship, General Industrial Machinery was in second place, and Agricultural Machinery was consistently in the bottom position. There was a wide range between the highest and lowest market-to-book ratio in each year.

Although market-to-book relationships were on the rise in most of the years subsequent to 1949, and especially in the last two years, the following tabular comparison shows that each industry's 1951–55 average was below the 1935–39 level. Even in 1955 only Electrical Supplies & Equipment was above its 1935–39 level.

Industry	Market Value to Book Value					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Electrical Supplies & Equipment	223%	148%	197%	202%	250%	312%
Aircraft	134	62	108	112	300	210
General Industrial Machinery	128	111	122	136	200	162
Agricultural Machinery	78	75	77	84	110	85
Group	154	106	137	144	199	211

Chart 37. PRODUCERS' CAPITAL GOODS

Dividend Yields by Industries
1935–1955

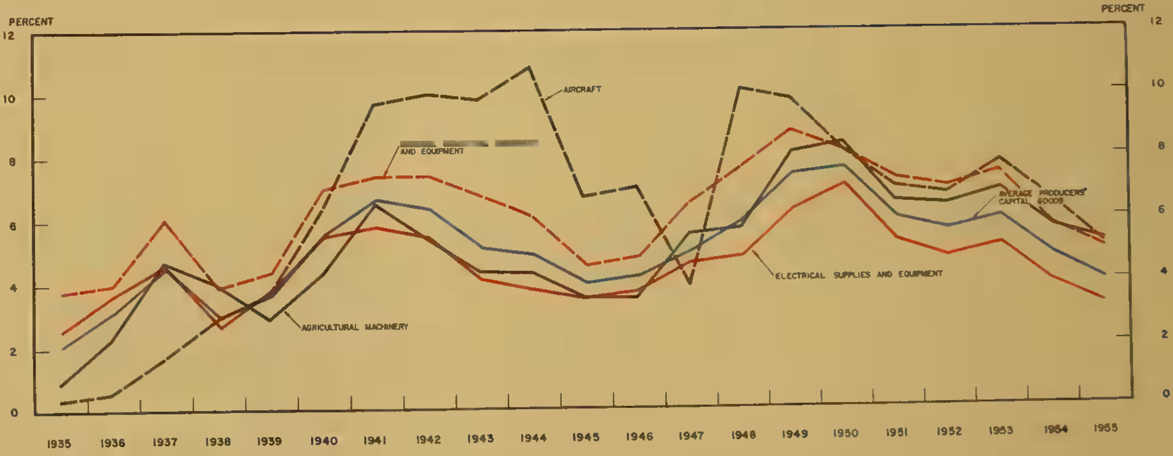
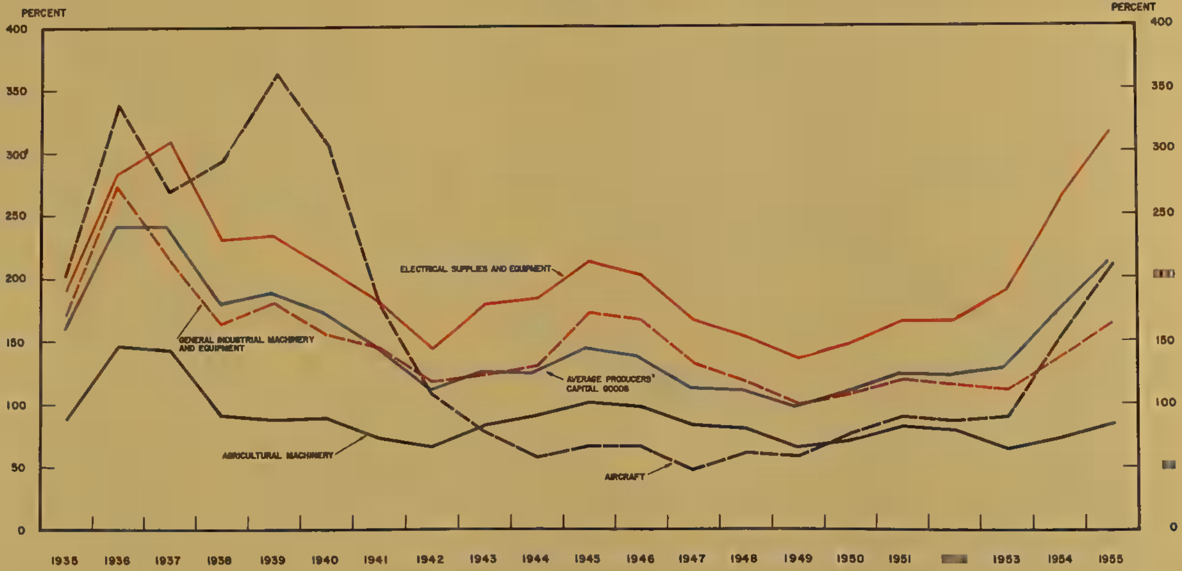


Chart 38. PRODUCERS' CAPITAL GOODS

Market Value to Book Value by Industries
1935–1955



Taking the entire span of years as a benchmark for measuring improvement, two industries—Electrical Supplies & Equipment and Aircraft—had higher relationships of market value to book value in 1951–55 than for the 1935–55 period. Each industry's 1955 ratio was higher than its 1935–55 average.

Summary

Four significant facts were developed from the foregoing analysis of market valuation. (1) Earnings-price ratios in the 1951–55 period were well above those in the 1935–39 period but, because of extremely high levels in the war years and again in the 1947–50 period, were below the 1935–55 averages. (2) With the exception of Agricultural Machinery, payout rates were lower in the postwar periods than in 1935–39. (3) In the 1951–55 period, dividend yields, like earnings yields, were higher than in 1935–39, but compared to 1935–55 the pattern was mixed. (4) The substantial rise in market-to-book ratios in the last two years produced average ratios for 1951–55 which were higher than 1935–55 but still below 1935–39. The 1955 ratios were higher than 1935–55 for all industries but higher than 1935–39 for Electrical Supplies & Equipment only.

Table 56. AGRICULTURAL MACHINERY INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	[redacted] TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO [redacted] per cent	PAY-OUT [redacted] per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	8.2	12.5	66	71	8.9	10.2	10.4	1.1	87	88.7	75.8
1936	11.4	14.6	79	74	13.4	9.3	29.6	2.7	145	93.8	95.1
1937	12.5	12.4	101	75	14.5	10.2	43.5	4.4	142	101.5	132.5
1938	6.4	8.2	78	75	6.3	7.0	56.5	4.0	91	107.8	108.3
1939	3.3	5.1	63	75	2.1	2.4	117.7	2.9	[redacted]	108.0	88.3
1940	7.6	9.7	78	75	8.1	9.0	47.9	4.3	89	108.4	109.6
1941	10.5	10.0	105	76	11.8	16.1	40.2	6.5	73	112.2	152.1
1942	11.0	10.0	111	77	13.9	21.1	25.8	5.4	66	121.9	173.9
1943	7.7	5.6	137	76	9.2	10.9	39.6	4.3	84	132.7	234.4
1944	9.0	5.5	163	76	10.1	11.0	39.0	4.3	91	140.5	296.1
1945	6.0	4.2	142	78	5.9	5.7	60.7	3.5	102	144.5	263.9
1946	4.8	5.3	90	79	4.7	4.8	73.7	3.5	98	151.7	176.5
1947	8.7	6.2	139	79	9.5	11.3	48.6	5.5	84	162.0	289.8
1948	11.5	6.4	180	78	13.7	16.8	34.0	5.7	82	173.6	403.2
1949	13.2	7.8	169	79	15.5	23.4	34.7	8.1	66	190.4	415.3
1950	13.1	8.5	155	81	15.1	21.1	39.7	8.4	72	205.2	410.1
1951	11.0	5.7	193	83	12.2	14.6	44.6	6.5	[redacted]	217.4	542.2
1952	8.8	5.6	156	75	10.4	13.0	49.2	6.4	80	260.4	524.2
1953	6.5	4.7	139	72	7.7	11.6	59.5	6.9	66	293.7	526.5
1954	5.3	4.6	114	74	6.0	8.1	70.9	5.7	74	297.0	438.1
1955	6.7	5.3	126	75	7.9	9.3	56.4	5.2	85	307.8	498.9
AVERAGES											
1935—1939	8.2	10.6	78	74	8.9	8.0	39.9	3.2	110		
1947—1955	8.9	6.0	149	77	10.5	13.6	47.0	6.4	77		
1947—1950	11.8	7.3	161	79	13.7	18.1	38.3	6.9	75		
1951—1955	7.4	5.2	143	75	8.7	11.2	54.6	6.1	[redacted]		

Table 57. AIRCRAFT INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	2.8	4.1	68	97	2.9	1.4	25.0	.4	203	75.5	36.3
1936	3.5	3.7	94	97	2.7	.8	76.5	.6	339	86.2	57.5
1937	11.0	8.1	136	97	10.5	3.9	44.9	1.7	269	100.0	96.1
1938	18.6	12.1	154	96	17.8	6.1	47.3	2.9	293	110.7	120.9
1939	25.5	12.1	210	96	23.9	6.6	56.4	3.7	362	127.1	189.2
1940	47.5	13.2	359	98	46.7	15.3	41.6	6.3	306	157.9	400.6
1941	61.9	9.0	687	99	61.2	34.2	28.4	9.7	179	237.8	1156.3
1942	39.9	3.4	1169	92	41.8	38.8	25.8	10.0	108	358.6	2965.4
1943	28.6	2.2	1303	82	33.3	43.0	22.9	9.8	78	549.9	5065.0
1944	21.1	1.7	1255	85	24.0	41.2	26.1	10.8	58	664.4	5893.7
1945	12.8	1.6	808	94	12.8	19.3	34.8	6.7	66	693.3	3956.8
1946	3.4	3.7	91	93	4.4			7.0	66	704.0	455.5
1947	5.0	3.9	129	91	6.3			3.9	48	646.8	590.7
1948	4.3	2.3	188	92	3.9	6.3	160.5	10.1	62	621.0	823.8
1949	7.5	3.0	251	93	7.3	12.3	79.7	9.8	59	619.7	1100.3
1950	12.2	4.3	287	94	12.3	16.1	51.3	8.2	77	640.5	1298.6
1951	10.5	2.9	362	95	10.5	11.7	59.7	7.0	90	678.9	1738.3
1952	13.9	2.3	612	95	14.0	16.5	41.5	6.8	85	721.1	3121.5
1953	17.8	2.2	804	96	18.1	20.1	39.0	7.8	90	787.4	4475.6
1954	25.9	3.6	727	95	26.6	17.4	37.6	6.5	153	938.6	4824.2
1955	22.9	3.8	596	92	24.3	11.6	44.3	5.1	210	1144.8	4822.4
AVERAGES											
1935—1939	13.8	9.8	141	96	13.0	4.3	51.5	2.2	300		
1947—1955	13.8	2.9	474	94	14.0	13.0	50.8	6.6	108		
1947—1950	4.7	2.2	213	93	4.3	7.0	116.9	8.2	62		
1951—1955	19.1	3.0	629	94	19.7	14.6	42.3	6.2	134		

Table 58. ELECTRICAL SUPPLIES AND EQUIPMENT INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD [illegible] cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	8.7	13.1	68	92	9.2	4.8	51.8	2.5	191	100.5	74.8
1936	11.1	12.6	[illegible]	98	11.2	3.9	91.5	3.6	285	98.7	95.2
1937	14.8	12.7	116	98	15.0	4.8	92.8	4.5	310	98.8	126.2
1938	6.4	7.2	88	98	6.4	2.8	88.5	2.5	231	99.8	96.8
1939	9.2	9.6	95	97	9.5	4.0	90.1	3.7	235	102.2	106.9
1940	12.2	9.8	124	97	12.5	6.1	88.9	5.4	207	104.9	142.8
1941	12.2	6.7	183	96	12.7	7.0	80.6	5.7	181	113.5	227.2
1942	13.7	6.1	226	95	14.5	10.2	53.0	5.4	143	125.4	310.2
1943	11.5	4.0	288	95	12.1	6.8	59.5	4.0	178	133.0	419.7
1944	11.1	3.8	289	95	11.6	6.3	58.7	3.7	183	139.5	442.4
1945	9.3	3.7	252	96	9.7	4.6	74.7	3.4	212	145.3	402.6
1946	4.5	3.7	120	81	5.4	2.7	134.1	3.6	201	172.5	226.9
1947	11.5	6.3	182	69	16.0	9.7	46.4	4.5	165	209.0	417.0
1948	14.4	6.8	211	71	19.7	13.0	36.4	4.7	152	229.2	530.5
1949	14.2	7.2	196	75	18.2	13.5	45.9	6.2	134	242.8	523.2
1950	17.9	8.0	225	84	21.0	14.4	48.7	7.0	146	247.1	608.6
1951	15.4	6.2	248	88	17.2	10.5	49.2	5.2	164	265.3	722.1
1952	13.3	5.4	248	84	15.6	9.4	50.2	4.7	165	305.4	831.1
1953	12.0	4.6	257	81	14.3	7.6	66.9	5.1	189	337.2	952.0
1954	13.8	5.8	237	81	16.6	6.4	61.1	3.9	258	357.4	929.1
1955	11.3	5.1	222	82	13.4	4.3	73.9	3.2	312	375.2	913.7
AVERAGES											
1935—1939	10.0	11.0	91	96	10.3	4.1	84.3	3.5	250		
1947—1955	13.6	6.0	228	80	16.6	8.4	54.2	4.5	197		
1947—1950	14.6	7.2	204	75	18.9	12.8	44.6	5.7	148		
1951—1955	13.0	5.4	242	83	15.3	6.9	60.3	4.2	223		

Table 59. GENERAL INDUSTRIAL MACHINERY AND EQUIPMENT INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	[redacted] RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	6.1	9.5	64	66	6.5	3.8	96.8	3.7	172	96.8	71.4
1936	11.3	12.6	90	68	14.0	5.1	76.6	3.9	275	97.2	101.7
1937	16.2	14.8	110	74	20.5	9.5	63.1	6.0	216	101.1	128.9
1938	4.8	6.3	76	79	4.7	2.8	133.3	3.8	165	102.9	91.0
1939	9.3	10.3	91	79	10.6	5.8	74.2	4.3	181	101.7	107.0
1940	13.2	11.8	113	78	15.8	10.2	67.9	6.9	155	105.1	137.2
1941	16.5	9.5	174	78	19.8	13.6	53.2	7.3	145	112.4	226.1
1942	14.9	5.6	268	81	17.3	14.8	49.0	7.3	117	118.9	369.2
1943	13.7	3.6	383	84	15.3	12.6	53.5	6.7	122	125.6	558.1
1944	11.7	3.4	345	86	12.6	9.8	61.9	6.0	129	130.6	522.0
1945	10.3	3.9	264	[redacted]	11.1	6.5	67.8	4.4	170	134.2	410.9
1946	15.9	10.2	155	89	17.3	10.5	44.8	4.7	165	145.2	261.3
1947	16.9	8.2	205	84	19.1	14.5	44.3	6.4	131	174.7	415.8
1948	18.1	8.8	205	82	22.2	19.3	38.6	7.5	115	207.2	492.9
1949	13.5	7.9	170	85	15.4	15.9	54.5	8.7	97	224.8	444.4
1950	15.4	9.7	159	87	17.4	16.5	49.2	8.1	105	239.6	441.7
1951	14.0	6.6	213	88	15.6	13.4	53.5	7.2	116	256.0	632.6
1952	12.8	5.7	224	[redacted]	14.2	12.6	55.0	6.9	112	274.2	713.0
1953	12.5	5.8	215	87	14.0	13.0	57.3	7.4	108	296.2	737.0
1954	10.7	6.1	176	86	12.1	9.1	62.8	5.7	134	321.1	654.9
1955	11.5	6.8	168	85	13.2	8.1	61.4	5.0	162	348.0	676.4
AVERAGES											
1935—1939	9.6	11.1	86	73	11.2	5.6	78.3	4.4	200		
1947—1955	13.5	7.0	192	86	15.4	12.6	53.0	6.7	122		
1947—1950	15.9	8.7	183	85	18.3	16.6	46.3	7.7	111		
1951—1955	12.2	6.2	197	87	13.7	10.7	58.1	6.2	128		

Chapter 9

COMMENTS ON PRODUCERS' RAW MATERIALS AND SUPPLIES GROUP

INDUSTRIES

Seven of the thirty-three industries were classified as manufacturers of producer's goods of the raw materials and supplies type (as distinguished from capital goods). As Table 60 shows, there is a wide range in the sizes of the industries. Steel, with 41% of total Group capital in 1955 and 46% of total sales, was by far the largest. Glass Containers, which had 2% of total capital and 3% of total sales, was the smallest industry in the Group.

The Securities and Exchange Commission industry classifications were departed from in two instances. First, six companies were selected to comprise the industry classification "Nonferrous Metals—Smelting and Refining." Three of the six selected corporations could clearly be identified as copper producers. Accordingly, one group was designated as the "Copper Industry" and the other as the "Nonferrous Metals Industry."

Second, eight companies listed on the New York Stock Exchange on December 31, 1950, were under the S.E.C. classification of "Metal and Glass Containers (including closures)." The three largest companies accounted for 75% of both sales and net worth. However, two of these companies were predominantly metal container manufacturers and one was primarily a producer of glass containers. They were segregated into two groups—Metal Container Industry and Glass Container Industry. To provide a broader sample, two additional glass container companies were added.

In accordance with the general sampling procedure, E. I. du Pont de Nemours and Company would have been included in the Chemical Industry sample. However, because of the Company's heavy holdings of General Motors' common stock, it was excluded.

EARNING POWER

Earnings Rates on Total Capital

In general terms, the Group's composite earnings experience was characterized by two features: relatively limited cyclical fluctuations and a pronounced upward trend (Chart 39).

Although there was a substantial difference in each period between the industry with the lowest earnings rate and that with the highest, the broad earnings patterns of the industries are similar in most years. Furthermore, they have drawn closer together in the postwar years.

Period Comparison

Industry	Earnings Rates on Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Nonferrous Metals	14.7%	14.3%	14.5%	13.1%	17.3%
Paper & Allied Products	12.0	15.6	13.1	5.0	12.6
Glass Containers	11.9	13.7	12.6	12.4	13.1
Copper	10.9	11.7	11.2	5.3	14.3
Chemicals	10.6	14.7	11.9	10.9	11.6
Steel	9.6	10.0	9.8	3.1	12.6
Metal Containers	8.4	10.4	9.1	10.3	9.1
Group	10.6	12.0	11.1	5.5	12.7

In the 1947–50 and 1951–55 periods, the composite earnings rates of the Group (12.0% and 10.6%, respectively) were approximately double the average prewar rate (5.5%). However, although the 1947–50 return on total capital of every industry was above its 1935–39 level, the 1951–55 earnings rates of the Glass Container, Chemical, and Metal Container industries slipped below their prewar averages. In 1955 only Metal

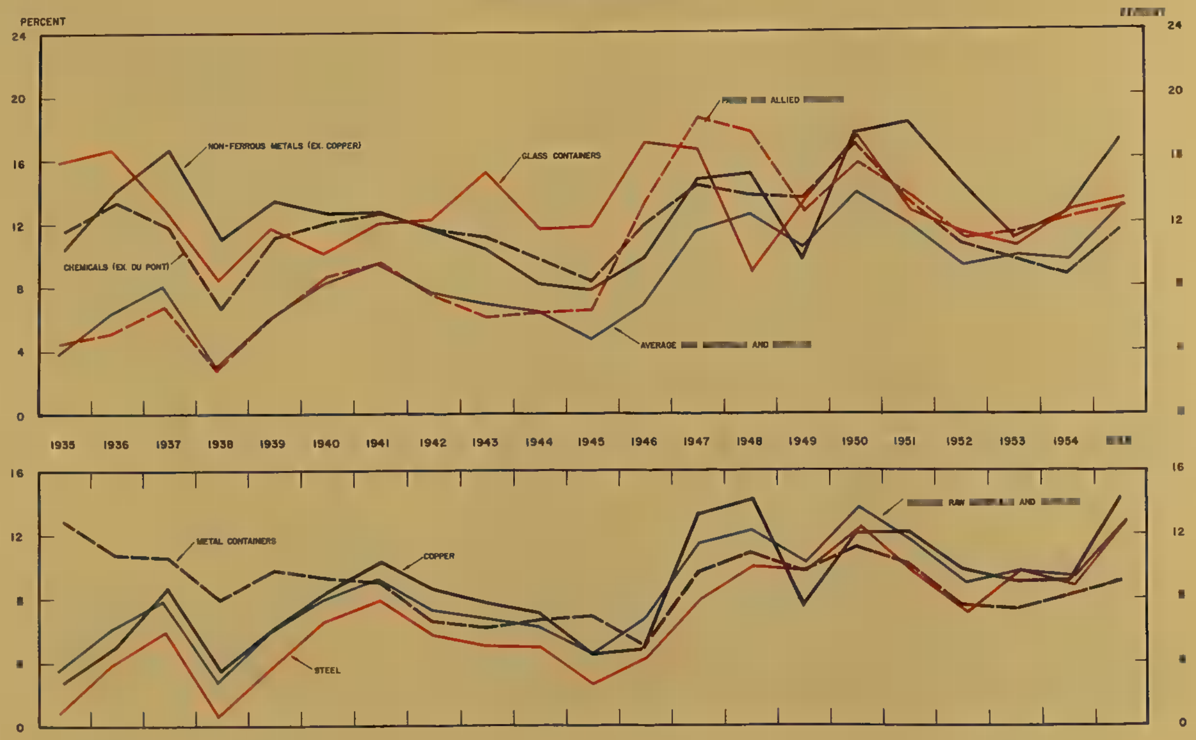
Table 60. PRODUCERS' GOODS—RAW MATERIALS AND SUPPLIES

Total Capital and Net Sales by Industries and Companies
1955

Industry and Company	Total Capital: Company	Total Capital: Industry	Net Sales: Company	Net Sales: Industry
	(millions)		(millions)	
Steel				
United States Steel Corp.	$2,846.5		$4,097.7	
Bethlehem Steel Corp.	1,431.4		2,096.6	
Republic Steel Corp.	646.9		1,188.6	
Jones & Laughlin Steel Corp.	526.1		696.5	
National Steel Corp.	468.7		622.0	
Inland Steel Co.	406.4		659.7	
Total		$6,326.0		$9,361.1
Per cent of Group		(40.7%)		(46.3%)
Chemicals				
Union Carbide & Carbon Corp.	$1,112.0		1,187.2	
Allied Chemical & Dye Corp.	598.0		628.5	
The Dow Chemical Co.	543.3		565.3	
Monsanto Chemical Co.	420.8		522.3	
American Cyanamid Co.	417.8		451.1	
Hercules Powder Co.	112.2		226.7	
Total		3,204.1		3,581.1
Per cent of Group		(20.6%)		(17.7%)
Paper and Allied Products				
International Paper Co.	$518.7		796.4	
Crown Zellerbach Corp.	355.7		414.1	
St. Regis Paper Co.	223.8		257.1	
Kimberly-Clark Corp.	190.9		253.3	
Scott Paper Co.	173.9		246.7	
Rayonier, Inc.	163.0		142.5	
West Virginia Pulp & Paper Co.	159.7		176.2	
The Champion Paper and Fibre Co.	109.9		154.2	
Container Corp. of America	109.1		215.6	
Marathon Corp.	103.9		135.1	
The Mead Corp.	101.7		150.5	
Union Bag & Paper Corp.	89.1		123.0	
Total		$2,299.4		$3,064.7
Per cent of Group		(14.8%)		(15.2%)
Copper				
The Anaconda Co.	$803.7		$630.7	
Kennecott Copper Corp.	635.9		548.3	
Phelps Dodge Corp.	466.7		353.4	
Total		$ 1,906.3		$ 1,532.4
Per cent of Group		(12.3%)		(7.6%)
Nonferrous Metals—excluding Copper				
The International Nickel Co.	$408.4		$380.8	
American Smelting & Refining Co.	310.6		260.5	
The American Metal Co., Ltd.	121.2		99.8	
Total		840.2		741.1
Per cent of Group		(5.4%)		(3.7%)
Metal Container				
American Can Co.	$392.6		$714.8	
Continental Can Co., Inc.	289.0		666.3	
Total		681.6		1,381.1
Per cent of Group		(4.4%)		(6.8%)
Glass Container				
Owens-Illinois Glass Co.	$209.3		$370.3	
Anchor Hocking Glass Corp.	42.4		113.8	
Hazel-Atlas Glass Co.	34.1		79.9	
Total		285.8		564.0
Per cent of Group		(1.8%)		(2.8%)
Group Total		$15,543.4		$20,225.5

Chart 39. PRODUCERS' GOODS—RAW [redacted] AND SUPPLIES

Earnings Rates on Total Capital by Industries
1935–1955



Containers' return was lower than its 1935–39 figure. Because of the lower earnings levels of recent years, the three industries suffered some loss of position relative to the other industries in the Group. Whereas Metal Containers was the fourth highest earner in 1935–39, it earned the lowest return in 1947–55, 1951–55, and 1955. Glass Containers, which was second in 1935–39, dropped to third position in all subsequent periods (except 1947–50 when it was fourth). Chemicals climbed from third place in 1935–39 to second in 1947–50 and then dropped to fourth in 1947–55, fifth in 1951–55, and sixth position in 1955.

Nonferrous Metals was the highest earner in each period except 1947–50. The three lowest earners in 1935–39, Steel, Paper & Allied Products, and Copper, had substantial improvement in the postwar periods. Steel's average rate for each postwar period was more than three times as great as its prewar average and 1955 exceeded 1935–39 by more than four times. The postwar rates for Paper & Allied Products and Copper were more than double their 1935–39 rates.

In the following compilation the postwar percentage improvement or decline in earnings rates in relation to the 1935–39 average is set forth for each industry. The industries are ranked according to their relative improvement as of 1951–55.

Industry	Percentage Change from 1935–39 Average		
	1951–55	1947–50	1955
Steel	+210	+223	+306
Paper & Allied Products	+140	+212	+152
Copper	+106	+121	+170
Nonferrous Metals	+ 12	+ 9	+ 32
Chemicals	− 3	+ 35	+ [illegible]
Glass Containers	− 4	+ 10	+ 6
Metal Containers	− 18	+ 1	− 12
Group	+ 93	+118	+131

The comparative prewar and postwar performances of the several industries bring out two significant points. (1) Only the low earners in 1935–39—Steel (3.1%), Paper & Allied Products (5.0%), and Copper (5.3%)—had substantial postwar increases in earnings. In fact, in 1951–55 the other four industries had practically no gain or slight losses. (2) In 1955 all industries, except Metal Containers, showed some gain. Moreover, in this year three of the industries—Steel, Copper, and Nonferrous Metals—enjoyed a higher percentage improvement than even in 1947–50.

Trends. Out of the thirty-three industries covered by the study, it was noted in Chapter 4 that over the last twenty-one years seven industries had pronounced upward trends in their earnings rates on total capital. Three of those industries—Steel, Paper & Allied Products, and Copper—are in the Producers' Raw Materials & Supplies Group. Furthermore, on the basis of arithmetic trend lines fitted to each industry's annual earnings rates over the 1935–55 period, it was found that Paper & Allied Products had the most pronounced upward trend of all thirty-three industries with Steel third and Copper fifth. None of the other four industries had either a significant upward or downward trend.

Stability. The seven industries fall into two distinct groups with respect to stability of earnings rates. Measured in terms of deviations from their 1935–55 trends, the three industries with pronounced upward trends—Copper, Paper & Allied Products, and Steel—had substantially wider fluctuations in earnings rates on total capital. If the thirty-three industries are divided into two groups according to earnings stability, the preceding three industries fall into the less stable group and the other four industries, whose average deviations from trend were closely comparable, are in the more stable group.

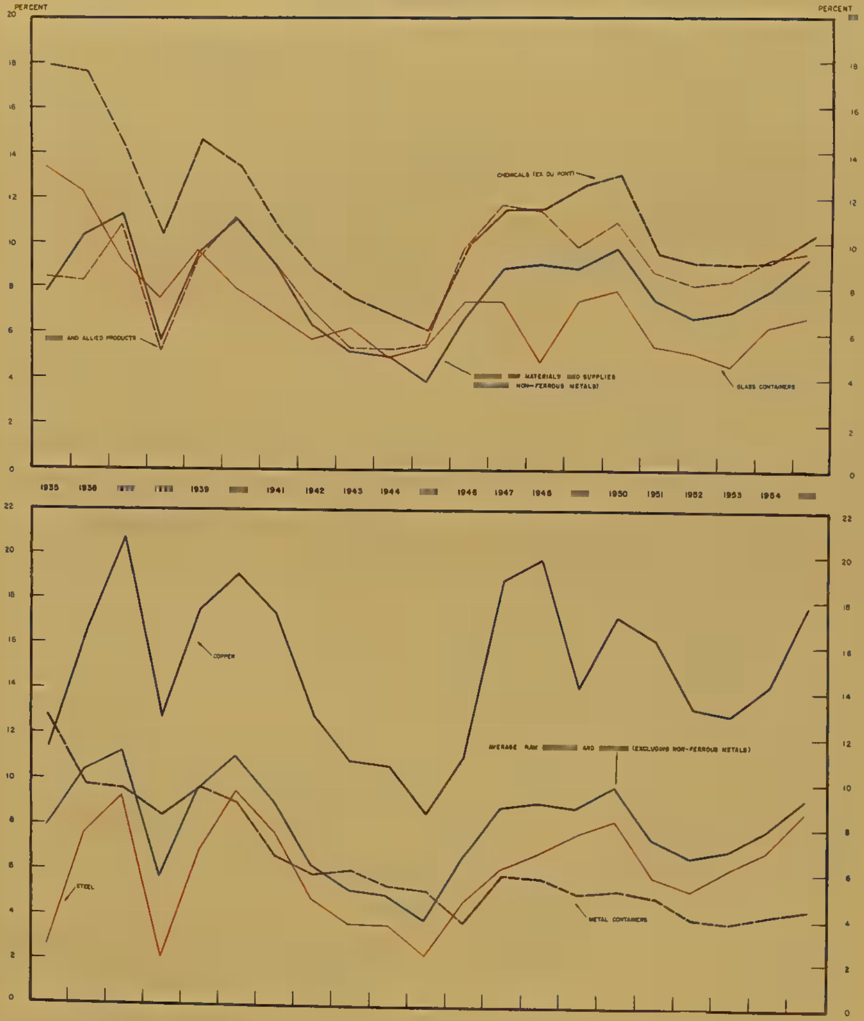
Profit Margins

The American Smelting and Refining Company, which is included in the Nonferrous Metals Industry, did not report net sales prior to 1950. Accordingly, this industry was excluded in all series which are related to net sales.

Chart 40 and the following data show that wide differences existed between the industries with respect to levels of profit margins and, to a lesser extent, in regard to trends. Throughout the twenty-one-year span, the highest profit margin was in the neighborhood of three times the

Chart 40. PRODUCERS' GOODS—RAW MATERIALS AND SUPPLIES

Earnings Available Total Capital to Sales by Industries
1935–1955



Industry	[redacted] Margins				
	1951–55	1947–50	1947–55	1935–39	1955
Copper	15.1%	17.7%	16.1%	16.5%	17.8%
Chemicals	9.5	12.3	10.4	14.9	10.4
Paper [redacted] Allied Products	8.8	11.0	9.5	8.5	9.5
Steel	6.5	7.2	6.8	6.2	8.5
Glass Containers	5.6	6.9	6.1	10.1	6.6
Metal Containers	4.3	5.5	4.7	10.0	4.5
Group	7.8	9.3	8.4	9.3	9.4

lowest. Interestingly, the spread was wider in the postwar periods than in the prewar span.

Although the period ranking of two industries remained unchanged throughout and although the rankings of all six were constant in each postwar span, numerous shifts occurred between the prewar and postwar periods. In every period Copper enjoyed the highest profit margin and was followed by Chemicals. However, Glass Containers and Metal Containers, which stood in third and fourth places, respectively, in 1935–39, dropped to fifth and sixth places in the postwar years. Contrariwise, Paper & Allied Products and Steel, which were in the lowest positions in 1935–39, rose to third and fourth places, respectively, in the postwar periods. In Chapter 4 it was pointed out that only five of the thirty-three industries had higher profit margins in 1951–55 than in 1935–39. Two of those five were Paper & Allied Products and Steel.

The most severe declines from 1935–39 to 1951–55 were suffered by the Metal Container and Glass Container industries. The profit margin of each dropped by about one-half.

Capital Turnover

As was true in nearly all other instances, the industries in this group experienced a marked increase in capital turnover in the postwar years. Composite turnover rose from 53% in 1935–39 to 132% in 1951–55 and edged up to 133% in 1955. The broad rise enjoyed by the seven industries may be readily seen from Chart 41. Although [redacted] substantial spread existed between the industry with the highest capital turnover (Glass Containers) and that with the lowest (Copper), it narrowed relatively in the postwar period. In 1935–39 Glass Containers' turnover was nearly four times that of Copper, whereas in 1951–55 it was less than three times.

Period Comparison. As mentioned, Glass Containers clearly had the highest turnover in every period except 1955. It was followed by Metal Containers, which was in second position all the way until it took the lead by a slight margin in 1955. Except for Copper, which consistently had the lowest turnover, the other three industries shifted their positions in the several periods. Chemicals, which ranked third in 1935–39, stood next to last in each postwar period. Paper & Allied Products remained in fourth place in all periods except 1947–50, when it temporarily rose to third place. Steel was fifth in 1935–39, but ranked third in every postwar period except 1947–50, when it was edged out by the Paper & Allied Products Industry.

Industry	Sales to [redacted] Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Glass Containers	212%	199%	207%	123%	197%
Metal Containers	195	188	193	104	203
Steel	148	138	144	50	148
Paper & Allied Products	136	142	138	58	133
Chemicals	112	120	114	73	112
Copper	72	66	70	32	80
Group	132	127	130	53	133

Comparing 1951–55 to 1935–39, Steel's capital turnover nearly tripled. This increase was by far the highest in the Group. Next came Paper & Allied Products and then Copper. Note from the preceding tabulation that, by a substantial margin, these three industries had the lowest prewar turnover.

Growth in Sales and Total Capital. Table 61 sets forth sales and total capital indexes (1935–39 = 100) for each industry by periods.

In terms of sales, Paper & Allied Products showed the greatest relative growth. It was followed by Chemicals, Steel, and Metal Containers, Chart 41. PRODUCERS' GOODS—RAW MATERIALS AND SUPPLIES

Sales to Total Capital by Industries
1935–1955

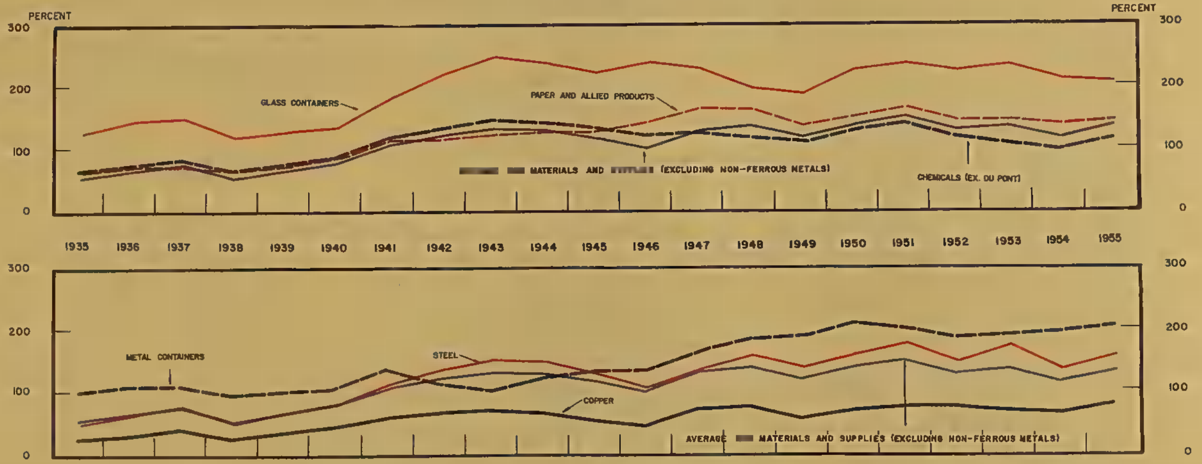


Table 61. PRODUCERS' RAW MATERIALS AND SUPPLIES GROUP

Comparative Industry Performance
Indexes of Sales and Total Capital
Selected Periods

Industry	1951–55	1947–50	1935–39	1955
	Index of Sales			
Paper & Allied Products	746.0	467.0	100.0	924.6
Chemicals	644.7	393.3	100.0	782.5
Steel	502.0	349.5	100.0	574.8
Metal Containers	457.6	295.5	100.0	527.2
Glass Containers	398.1	292.5	100.0	443.2
Copper	358.8	269.2	100.0	437.5
	Index of Total Capital			
Chemicals	419.0	239.0	100.0	509.0
Paper & Allied Products	300.4	179.5	100.0	379.6
Metal Containers	242.5	162.8	100.0	269.6
Glass Containers	233.3	183.0	100.0	279.2
Steel	169.7	126.2	100.0	194.1
Copper	159.1	130.7	100.0	174.5

in that order. Copper had the least growth; next to it was Glass Containers. There was a marked difference in the relative growth of the industries. In 1951–55 Paper & Allied Products' sales index was more than double that for Copper and the same general relationship held in 1955. The difference in sales growth is also indicated by the fact that based on the rankings of all thirty-three industries (Chapter 4) Paper & Allied Products was fourth and Copper twenty-fifth.

Although their intragroup rankings in terms of sales growth were the same in each postwar period, a few shifts occurred in the rankings of the industries according to relative capital growth. Chemicals, which had the highest index in each period, was the only industry with the same ranking throughout. Paper & Allied Products was in second place in recent years but in 1947–50 ranked third. Metal Containers stood third in 1951–55 but fourth in both 1947–50 and 1955. Glass Containers ranked second in 1947–50, dropped to fourth in 1951–55, and recovered to third place in 1955. Steel and Copper, alternately, stood in fifth and sixth places.

In 1951–55 Chemicals' total capital index was over two and a half times that of Copper, which in this period showed the least growth. In 1955 the spread between the two industries increased further. In relation to the thirty-three industries, in 1955, the Chemical Industry was in seventh place and Copper in thirty-first.

Earnings Rates on Common-Stock Capital

Common Stock as a Per Cent of Total Capital. For the group as a whole, the common-stock-to-total-capital relationship was fairly stable throughout the twenty-one-year period. As may be seen from the following data, in 1951–55 it was only slightly higher than in 1935–39.

Industry	Common Stock Per Cent of Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Copper	96%	100%	97%	94%	93%
Glass Containers	87	86	87	90	80
Nonferrous Metals	87	85	86	73	88
Steel	78	77	78	65	79
Paper & Allied Products	76	71	75	42	78
Metal Containers	71	74	72	79	72
Chemicals	[illegible]	72	69	88	65
Group	78	80	79	72	78

Among the individual industries, changes in the ratio of common stock to total capital were greatest in the cases of Chemicals and Paper & Allied Products. The Chemical Industry's common-to-total ratio dropped from 88% in 1935–39 to 72% in 1947–50, 68% in 1951–55, and 65% in 1955. The Paper & Allied Products Industry's change was in the other direction. Its common stock proportion, which was 42% in 1935–39, rose steadily in the postwar period to reach 78% of total capital in 1955.

Comparative Return on Common and on Total Capital. From Table 62, which sets forth comparative earnings rates on common stock and

Table 62. COMPARATIVE INDUSTRY PERFORMANCE

Earnings Rates on Common Stock and Total Capital for Selected Periods
Industries Ranked According to 1951–55 Average

Industry	1951–55		1947–50		1947–55		1935–39		[redacted]	
	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital
Nonferrous Metals	16.0%	14.7%	15.6%	14.3%	15.8%	14.5%	15.6%	13.1%	18.8%	17.3%
Paper & Allied Products	14.9	12.0	20.7	15.6	16.7	13.1	4.7	5.0	15.4	12.6
Chemicals	14.8	10.6	19.4	14.7	16.3	11.9	11.6	10.9	16.9	11.6
Glass Containers	13.4	11.9	15.7	13.7	14.3	12.6	13.4	12.4	15.9	13.1
Copper	11.3	10.9	11.7	11.7	11.5	11.2	5.3	5.3	15.2	14.3
Steel	11.3	9.6	11.6	10.0	11.4	9.8	1.5	3.1	15.1	12.6
Metal Containers	10.7	8.4	12.5	10.4	11.3	9.1	11.3	10.3	11.5	9.1
Group	12.7	14.1	14.1	13.2	13.2	11.1	5.4	15.5	15.5	12.7

on total capital, it may be seen readily that the Chemical Industry's increased postwar leverage improved its position relative to the other industries. Whereas in terms of the return on common stock it stood in third place in both 1935–39 and 1951–55, with respect to the earnings rate on total capital it also ranked third in 1935–39 but dropped to fifth place in 1951–55.

Although Paper & Allied Products' percentage of common stock increased substantially in the postwar periods (leverage decreased), its relative positions happen to be the same in each period on the basis of the return on both common stock and total capital.

The earnings rates on common stock capital for the seven industries are graphically presented in Chart 42.

Summary

The results of the examination of the earning power of the Producers' Raw Materials and Supplies Group may be summarized in five major facts. (1) Three industries—Steel, Paper & Allied Products, and Copper—had significant upward trends in their earnings rates on total capital. (2) In spite of the fact that all industries in the Group had higher capital turnover ratios in the postwar periods, in 1951–55 three industries—Glass Containers, Chemicals, and Metal Containers—had lower earnings rates on total capital than in 1935–39. Due to [redacted] combination of higher capital turnover and increased profit margins, Steel and Paper & Allied Products had the most pronounced earnings improvement in 1951–55. (3) Marked differences existed between the industries with respect to growth in both sales and total capital. (4) Only the Chemical and Paper & Allied Products industries had pronounced changes in their common stock proportions. (5) Chemicals' lower common stock proportions (increased leverage) improved its relative standing in the Group in terms of return on common stock. In contrast, the decline in the Paper & Allied Products Industry's leverage had no effect on its ranking.

MARKET VALUATION

Earnings-Price Ratios

Over the 1935–55 period (Chart 43), the earnings-price ratios of the seven industries were characterized by sharp fluctuations and considerable intertwining. Also, postwar earnings yields were substantially above the prewar levels. In fact, the increase from 1935–39 to the postwar periods was greater (decrease in multiplier more) for the Producers' Raw Materials & Supplies than for any other group.

As the following comparison brings out, there were substantial differences in each period between the earnings-price ratios for the several

Chart 42. PRODUCERS' GOODS—RAW MATERIALS AND SUPPLIES

Earnings Rates on Common Stock Capital by Industries
1935–1955

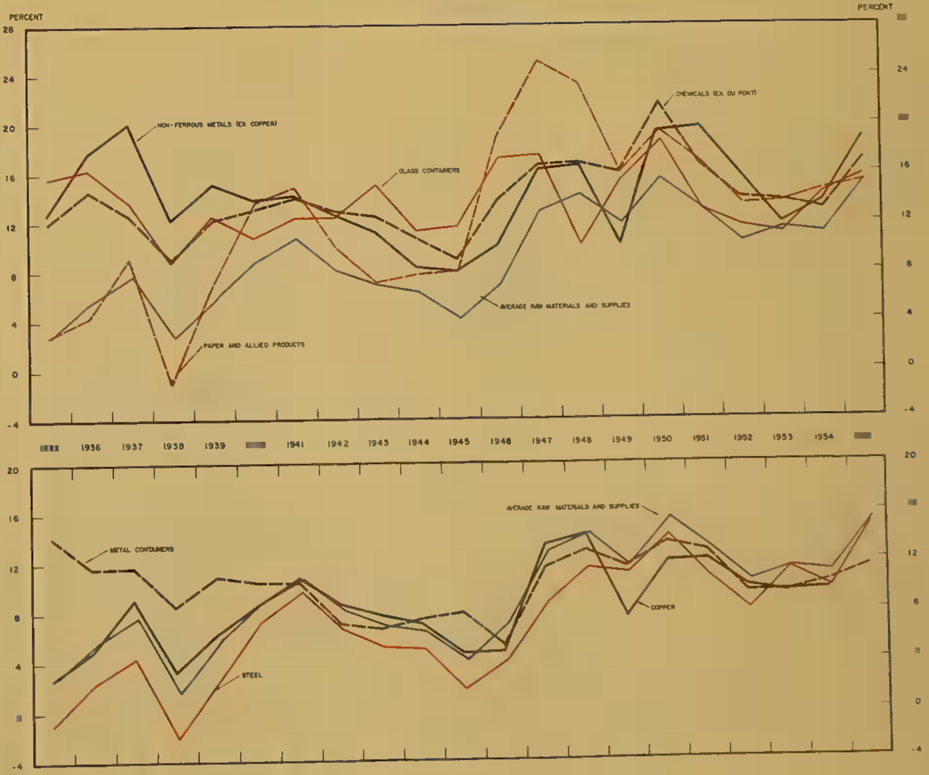
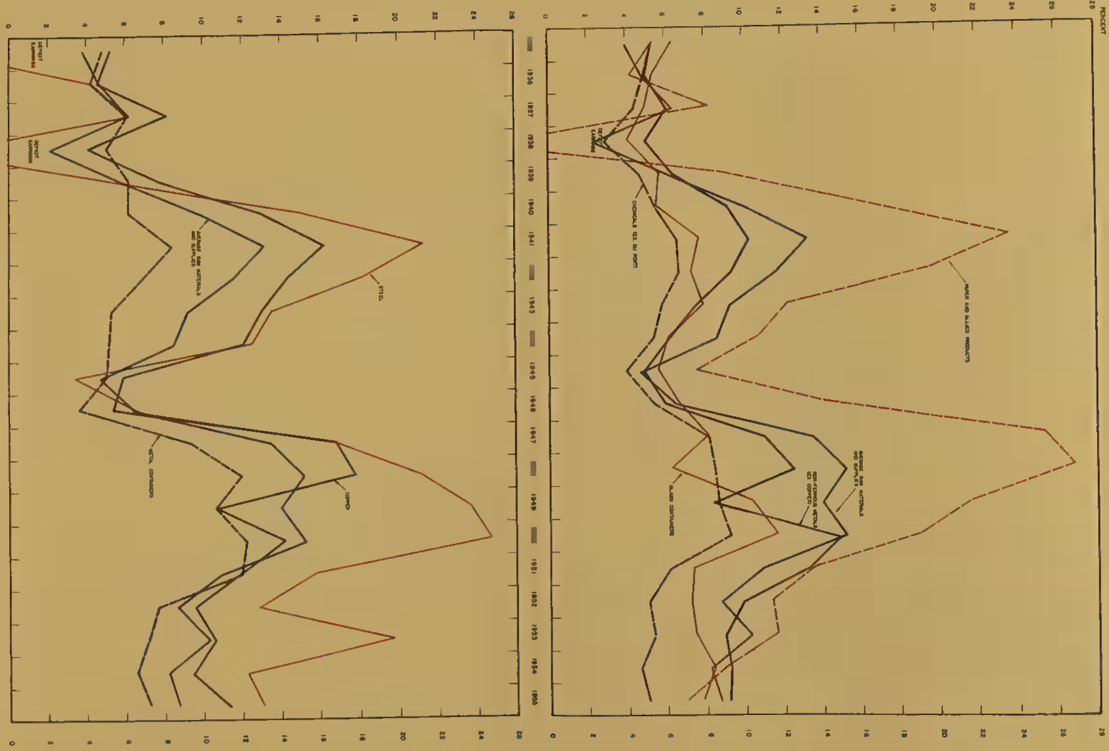


Chart 43. PRODUCERS' GOODS—RAW MATERIALS AND SUPPLIES

Earnings-Price Ratios by Industries
1935–1955



industries. These differences were particularly pronounced in the postwar periods.

Industry	Earnings-Price Ratios					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Chemicals	5.3%	8.7%	6.2%	5.8%	4.4%	5.1%
Glass Containers	7.6	9.1	8.2	7.2	5.3	7.7
Metal Containers	7.9	11.2	9.0	7.2	5.3	7.4
Paper & Allied Products	9.5	22.8	12.2	12.0	5.6	7.0
Nonferrous Metals	10.0	11.9	10.6	8.5	5.6	9.2
Copper	10.7	15.0	12.2	10.7	6.2	11.4
Steel	14.2	21.7	16.3	13.3	2.8	13.0
Group	9.2	14.5	10.7	9.3	4.7	8.7

In spite of the wide fluctuations in earnings-price ratios, there was limited shifting of positions between industries in the prewar and postwar periods. The two exceptions were Steel, which had the lowest earnings yield in 1935–39 and the highest in both 1951–55 and 1955, and Paper & Allied Products, which ranked fifth in 1935–39, seventh in 1947–50, fourth in 1951–55, and second in 1955. Subject to these exceptions, Chemicals, Glass Containers, and Metal Containers had the low earnings-price ratios (high multipliers) over the several spans and Steel, Copper, and Nonferrous Metals had the high earnings-price ratios (low multipliers).

Comparing 1951–55 to 1935–55, only Paper & Allied Products and Chemicals had lower earnings-price ratios (higher multipliers) in the last five years than over the entire span. The 1951–55 earnings-price ratios of the other industries were close to their 1935–55 averages. Out of the Group, Nonferrous Metals had the highest 1951–55 earnings-price ratio in relation to its 1935–55 level.

Payout Rates

For the most part, payout rates were lower in the postwar periods than in the prewar span. Only Copper and Paper & Allied Products paid out a higher percentage of their earnings in 1951–55 than in 1935–39.

Industry	Per Cent of Earnings Paid Out in Dividends					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Copper	69.8%	59.4%	65.5%	65.6%	64.0%	59.8%
Glass Containers	62.5	55.0	59.4	62.4	75.7	49.8
Chemicals	60.6	51.5	57.1	59.5	70.5	54.0
Nonferrous Metals	59.0	60.8	59.7	65.5	66.5	57.1
Metal Containers	51.4	39.2	46.5	56.3	79.3	52.3
Paper & Allied Products	46.6	32.2	41.1	39.7	43.0	47.7
Steel	44.9	37.5	42.1	44.5	55.3	38.8
Group	53.5	45.2	50.3	53.3	66.0	47.9

Although Steel and Paper & Allied Products consistently had the lowest distribution rates, there were some substantial changes in payout rates across the several periods. Metal Containers, whose payout rate in 1935–39 (79%) was the highest in the Group, and in 1951–55 (51%) was near the low, had the most pronounced change. In the postwar periods Copper and Glass Containers were among those with the highest distribution rates.

Dividend Yields

While the amplitude of the fluctuations was less pronounced, the Group's dividend yields present substantially the same picture as earnings yields. Note from Chart 44 that considerable intertwining occurred; that the range between the highest and lowest yielding industry was substantial; and that postwar yields were higher than prewar yields.

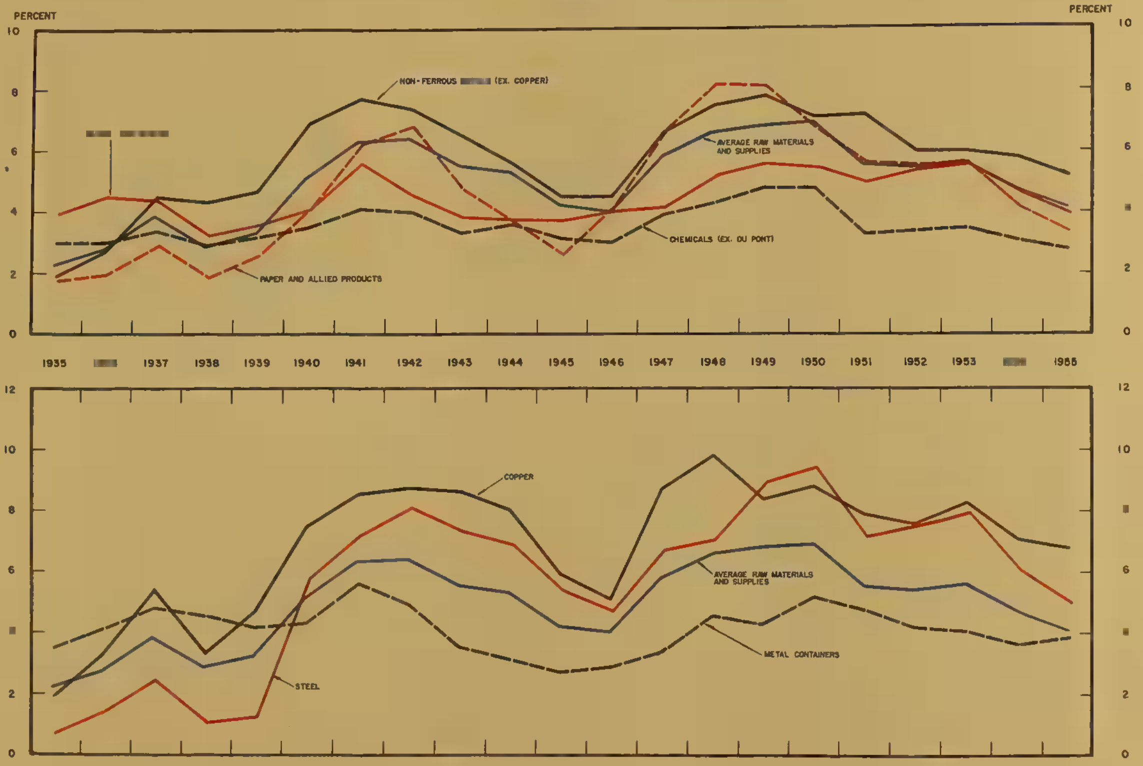
As might be expected from examining the chart of annual yields, several shifts in position by periods have occurred.

The two most notable changes may be more readily seen by comparing 1935–39 and 1951–55. In the former period Steel had the lowest yield and in the latter next to the highest. Contrariwise, Metal Containers' yield went from the highest in the earlier period to next to the lowest in the later period.

In terms of the postwar periods, Chemicals and Metal Containers are predominantly the low-dividend yielding industries and Steel and

Chart 44. PRODUCERS' GOODS—RAW MATERIALS AND SUPPLIES

Dividend Yields by Industries
1935–1955



Industry	Dividend Yields					
	1951–55	1947–50	1937–55	1935–55	1935–39	1955
Chemicals	3.2%	4.5%	3.5%	3.5%	3.1%	2.8%
Metal Containers	4.1	4.4	4.2	4.1	4.2	3.9
Paper & Allied Products	4.4	7.3	5.0	4.8	2.4	3.3
Glass Containers	4.8	5.0	4.8	4.5	4.0	3.9
Nonferrous Metals	5.9	7.2	6.4	5.6	3.7	5.2
Steel	6.4	8.1	6.9	5.9	1.6	5.0
Copper	7.5	8.9	8.0	7.0	3.9	6.8
Group	4.9	6.6	5.4	5.0	3.1	4.1

Copper the high yielders. The relative positions of the other industries have shifted in every period.

The 1951–55 averages for both Chemicals and Paper & Allied Products were below their respective averages for the entire 1935–55 period, while Metal Containers had the same yield in both periods. The 1951–55 yields for the other industries were all higher than their 1935–55 averages and, interestingly, by about the same proportions.

Market Value to Book Value

The annual market-to-book relationships over the 1935–55 period for each industry are graphically depicted in Chart 45. There were wide differences among the industries with respect to levels but, with the exception of Chemicals, they drew closer together in the last four or five years. Note also that whereas Nonferrous Metals, Glass Containers, and Metal Containers had distinct downward drifts, Paper & Allied Products had [illegible] steep upward trend.

In spite of the differences in trends, it may be seen from the following period-by-period comparison that relatively little shifting of positions occurred. Chemicals, Glass Containers, and Nonferrous Metals had the highest valuations throughout. Steel had the lowest valuation in all periods and Copper next to the lowest in every period, except 1935–39, when it was in fifth place. The positions of Paper & Allied Products and Metal Containers were, therefore, the relatively unstable ones.

Industry	Market Value to [illegible] Value					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Chemicals	281%	222%	262%	252%	262%	329%
Glass Containers	176	173	175	194	254	205
Nonferrous Metals	159	131	149	177	280	205
Paper & Allied Products	157	91	136	124	85	220
Metal Containers	135	111	126	144	215	154
Copper	105	78	94	85	86	134
Steel	79	54	70	61	55	116
Group	138	97	123	113	115	180

Again, measuring change by a comparison of 1951–55 with 1935–55, Steel, Paper & Allied Products, and Copper enjoyed the most pronounced increase in the last five years. They were followed by Chemicals, which had a considerably lower increase. In 1951–55, the other three industries—Nonferrous Metals, Glass Containers, and Metal Containers—were all below their 1935–55 averages.

Note that in 1955, although the market-to-book ratios for all of the industries were well above their 1951–55 averages, the same three were still below their 1935–39 levels.

Summary

Four significant facts were developed from the foregoing analysis of the market valuation of the Group's common stock. (1) Earnings-price ratios were characterized by substantial fluctuations and by considerably higher levels in 1951–55 than in 1935–39. The Steel and Paper & Allied Products industries had the most pronounced changes in earnings-price ratios. (2) Payout rates were reasonably stable over the 1935–55 span, although somewhat lower in the postwar periods than in 1935–39. (3) Dividend yields, while more stable than earnings-price ratios, displayed the same general characteristics. The dividend yields of Steel and Metal Containers had the most marked changes. (4) Although Steel, Paper & Allied Products, and Copper had substantial increases in their market-to-book ratios and Chemicals [illegible] more moderate increase, Nonferrous Metals, Glass Containers, and Metal Containers suffered declines.

Chart 45. PRODUCERS' GOODS—RAW MATERIALS [redacted] SUPPLIES

Market Value to Book Value by Industries
1935–1955

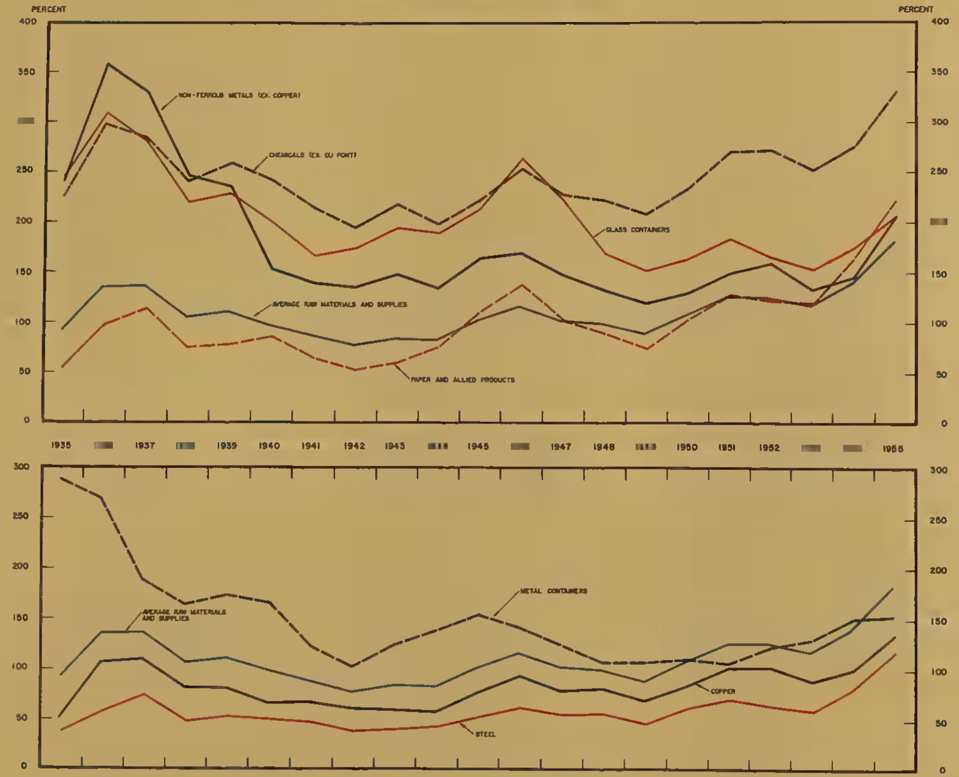


Table 63. CHEMICAL INDUSTRY

(excluding duPont)

[redacted]	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	[redacted] RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	[redacted] TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	11.6	17.9	65	87	12.0	5.3	57.2	3.0	226	93.1	82.7
1936	13.4	17.6	76	89	14.6	4.9	61.3	3.0	299	95.4	99.9
1937	11.8	14.3	83	91	12.6	4.4	77.2	3.4	283	97.9	111.5
1938	6.7	10.4	64	89	7.0	2.9	99.7	2.9	241	104.0	91.2
1939	11.1	14.6	76	87	12.2	4.7	68.7	3.2	258	109.9	114.7
1940	12.0	13.5	[redacted]	88	13.1	5.5	64.6	3.5	241	115.2	140.4
1941	12.6	10.7	118	87	14.0	6.6	62.3	4.1	214	121.7	197.5
1942	11.6	8.8	132	86	12.9	6.7	60.3	4.0	194	129.5	234.6
1943	11.1	7.6	147	85	12.5	5.8	56.6	3.3	217	138.1	278.7
1944	9.7	6.9	141	86	10.7	5.4	66.9	3.6	197	144.7	280.9
1945	8.3	6.2	133	87	8.9	4.0	76.3	3.1	222	146.0	267.7
1946	11.9	9.9	120	83	13.7	5.4	54.6	3.0	253	159.2	263.3
1947	14.3	11.5	124	73	18.6	8.2	47.0	3.9	227	198.1	338.1
1948	13.7	11.6	119	69	18.8	8.5	51.1	4.3	221	233.5	380.8
1949	13.5	12.6	108	71	18.0	8.7	55.0	4.8	208	250.3	370.3
1950	16.9	13.1	128	76	21.6	9.3	52.1	4.8	233	274.1	484.1
1951	13.4	9.6	140	78	16.7	6.2	54.2	3.3	270	308.9	593.2
1952	10.7	9.2	116	73	13.9	5.1	67.2	3.4	272	368.4	588.7
1953	9.7	9.1	107	66	13.7	5.4	64.9	3.5	252	433.8	636.0
1954	8.8	9.2	95	63	12.9	4.7	66.1	3.1	275	474.9	623.2
1955	11.6	10.4	112	65	16.9	5.1	54.0	2.8	329	509.0	782.5
AVERAGES											
1935—1939	10.9	14.9	73	[redacted]	11.6	4.4	70.5	3.1	262		
1947—1955	11.9	10.4	114	69	16.3	6.2	57.1	3.5	262		
1947—1950	14.7	12.3	120	72	19.4	8.7	51.5	4.5	222		
1951—1955	10.6	9.5	112	68	14.8	5.3	60.6	3.2	281		

Table 64. COPPER INDUSTRY

[redacted]	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO [redacted] CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	2.8	11.4	24	94	2.7	5.3	35.6	1.9	51	96.0	72.8
1936	5.0	16.5	31	92	5.0	4.7	70.9	3.3	106	99.3	94.8
1937	8.7	20.7	42	93	9.1	8.2	65.7	5.4	110	100.9	132.9
1938	3.5	12.8	27	94	3.4	4.2	79.1	3.3	82	101.5	86.9
1939	6.2	17.5	35	95	6.3	7.8	59.8	4.7	81	102.0	112.7
1940	8.4	19.1	44	96	8.7	13.1	57.6	7.5	66	104.2	143.0
1941	10.3	17.4	59	97	10.8	16.3	52.4	8.5	66	107.6	199.3
1942	8.5	12.9	66	99	8.6	14.4	60.5	8.7	60	110.8	228.6
1943	7.7	10.9	70	100	7.7	13.1	66.1	8.6	59	112.8	247.8
1944	7.0	10.7	65	100	7.0	12.2	65.2	8.0	57	115.1	233.0
1945	4.5	8.6	53	100	4.5	6.0	98.4	5.9	76	116.8	193.0
1946	4.8	11.2	43	100	4.8	5.5	92.5	5.1	88	117.2	156.6
1947	13.3	18.9	71	100	13.3	16.9	51.3	8.7	79	121.4	267.5
1948	14.2	19.8	72	100	14.2	17.9	54.8	9.8	80	129.4	290.0
1949	7.5	14.2	53	100	7.5	10.8	77.6	8.4	69	134.0	221.2
1950	12.0	17.3	69	100	12.0	14.3	61.4	8.8	84	138.0	298.1
1951	12.1	16.3	74	100	12.1	12.0	66.2	7.9	101	144.1	333.7
1952	9.7	13.3	73	98	9.9	9.7	78.5	7.6	102	151.5	346.2
1953	9.0	13.0	69	95	9.4	10.7	77.8	8.3	88	159.3	345.2
1954	9.1	14.3	64	93	9.6	9.6	74.2	7.1	101	166.2	331.7
1955	14.3	17.8	80	93	15.2	11.4	59.8	6.8	134	174.5	437.5
AVERAGES											
1935—1939	5.3	16.5	32	94	5.3	6.2	64.0	3.9	86		
1947—1955	11.2	16.1	70	97	11.5	12.2	65.5	8.0	94		
1947—1950	11.7	17.7	66	100	11.7	15.0	59.4	8.9	78		
1951—1955	10.9	15.1	72	96	11.3	10.7	69.8	7.5	105		

Table 65. GLASS CONTAINER INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	[redacted] TO TOTAL CAPITAL per cent	[redacted] RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	[redacted] YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET [redacted] index
1935	15.7	13.4	117	100	15.8	6.4	62.5	4.0	245	81.5	78.3
1936	16.5	12.2	135	100	16.6	5.4	84.1	4.5	308	91.6	101.3
1937	12.7	9.2	139	88	13.9	5.0	88.5	4.4	278	104.7	116.7
1938	8.2	7.5	109	83	9.0	4.1	76.5	3.2	219	110.9	97.2
1939	11.5	9.7	119	85	12.8	5.7	64.5	3.6	227	110.9	106.5
1940	9.9	7.9	126	88	11.0	5.5	73.6	4.1	199	112.0	113.3
1941	11.7	6.8	172	90	12.7	7.7	73.1	5.6	165	111.8	154.5
1942	12.0	5.7	211	93	12.7	7.3	61.2	4.5	173	111.3	189.2
1943	14.9	6.2	239	96	15.3	7.9	48.0	3.8	193	113.8	218.5
1944	11.3	4.9	228	97	11.5	6.1	60.7	3.7	188	118.5	217.8
1945	11.5	5.4	211	96	11.9	5.6	65.3	3.7	212	126.5	215.0
1946	16.7	7.4	227	95	17.4	6.6	59.9	4.0	263	137.5	250.6
1947	16.3	7.4	219	91	17.7	8.1	50.8	4.1	220	157.7	277.6
1948	8.6	4.7	185	82	10.2	6.2	83.0	5.1	166	185.8	275.9
1949	13.1	7.4	178	83	15.5	10.3	53.3	5.5	150	194.3	277.6
1950	17.2	7.9	217	90	18.8	11.6	46.3	5.4	162	194.4	338.7
1951	12.3	5.4	227	92	13.2	7.3	67.9	4.9	182	202.7	370.5
1952	11.0	5.1	215	92	11.7	7.2	74.0	5.3	163	209.1	362.5
1953	10.2	4.5	226	90	11.2	7.4	74.3	5.5	152	223.1	405.8
1954	12.4	6.2	201	83	14.5	8.3	55.8	4.6	175	252.3	408.4
1955	13.1	6.6	197	80	15.9	7.7	49.8	3.9	205	279.2	443.2
AVERAGES											
1935—1939	12.4	10.1	123	90	13.4	5.3	75.7	4.0	254		
1947—1955	12.6	6.1	207	87	14.3	8.2	59.4	4.8	175		
1947—1950	13.7	6.9	199	[redacted]	15.7	9.1	55.0	5.0	173		
1951—1955	11.9	5.6	212	87	13.4	7.6	62.5	4.8	176		

Table 66. METAL CONTAINER INDUSTRY

[illegible]	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	12.9	12.8	101	82	14.2	4.9	71.9	3.5	289	90.5	88.2
1936	10.8	9.8	110	83	11.6	4.3	94.3	4.1	269	93.7	99.8
1937	10.6	9.6	111	[illegible]	11.7	6.2	77.7	4.8	189	100.4	107.3
1938	8.0	8.4	95	77	8.5	5.1	89.1	4.6	165	105.7	97.1
1939	9.8	9.7	101	76	10.9	6.3	67.5	4.2	174	109.8	107.5
1940	9.3	9.0	103	75	10.4	6.3	68.4	4.3	166	115.0	113.9
1941	9.0	6.7	134	76	10.4	8.5	66.4	5.6	122	118.0	152.9
1942	6.5	5.9	111	76	7.1	7.0	70.3	4.9	101	120.5	129.5
1943	6.1	6.1	100	75	6.7	5.4	65.2	3.5	124	125.2	120.9
1944	6.6	5.4	123	74	7.4	5.3	58.2	3.1	138	129.1	153.4
1945	6.9	5.2	132	72	7.9	5.1	53.1	2.7	154	134.1	171.2
1946	5.0	3.8	133	72	5.3	3.7	76.9	2.9	142	139.6	179.8
1947	9.6	5.9	163	73	11.6	9.4	36.1	3.4	124	146.4	230.8
1948	10.8	5.8	185	75	12.9	12.1	38.2	4.6	107	156.2	278.3
1949	9.7	5.1	189	75	11.6	10.8	39.8	4.3	107	168.3	307.0
1950	11.2	5.3	210	75	13.6	12.4	41.5	5.2	110	180.4	365.7
1951	10.1	5.0	201	72	12.8	12.1	39.6	4.8	106	203.0	393.4
1952	7.5	4.0	186	68	9.5	7.8	54.2	4.2	122	233.9	419.3
1953	7.5	3.9	192	69	9.5	7.3	56.1	4.1	130	249.7	463.8
1954	8.2	4.2	196	72	10.2	6.7	55.8	3.7	152	256.5	484.2
1955	9.1	4.5	203	72	11.5	7.4	52.3	3.9	154	269.6	527.2
AVERAGES											
1935—1939	10.3	10.0	104	79	11.3	5.3	79.3	4.2	215		
1947—1955	9.1	4.7	193	72	11.3	9.0	46.5	4.2	126		
1947—1950	10.4	5.5	188	74	12.5	11.2	39.2	4.4	111		
1951—1955	8.4	4.3	195	71	10.7	7.9	51.4	4.1	135		

Table 67. NONFERROUS METALS INDUSTRY
(excluding Copper)

	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
[redacted]	EARNINGS RATE per cent	[redacted] TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	[redacted] RATE per cent	EARNINGS TO [redacted] per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	10.4			64	12.7	5.3	35.4	1.9	240	97.5	
1936	14.1			69	17.7	5.0	54.8	2.7	357	97.6	
1937	16.7			75	20.1	6.1	73.6	4.5	329	99.7	
1938	11.1			79	12.3	5.0	86.5	4.3	246	101.7	
1939	13.4			80	15.1	6.4	72.9	4.7	235	103.3	
1940	12.6			81	13.9	9.2	75.7	6.9	152	105.8	
1941	12.8			81	14.2	10.3	74.4	7.7	138	108.6	
1942	11.6			82	12.6	9.4	79.0	7.4	134	111.3	
1943	10.4			82	11.2	7.6	84.5	6.5	147	113.3	
1944	8.1			82	8.3	6.2	90.3	5.6	134	116.0	
1945	7.8			83	8.0	4.9	92.0	4.5	163	118.3	
1946	9.7			83	10.1	6.0	74.8	4.5	168	120.8	
1947	14.7			[redacted]	16.2	11.0	60.0	6.6	147	126.4	
1948	15.1			[redacted]	16.6	12.6	59.3	7.5	132	133.8	
1949	9.6			85	10.1	8.5	91.2	7.8	119	138.1	
1950	17.6			[redacted]	19.4	15.0	47.5	7.1	129	145.0	
1951	18.2			86	20.1	13.6	52.9	7.2	148	158.7	
1952	14.5			[redacted]	15.8	10.0	59.4	6.0	158	171.5	
1953	11.1			87	12.0	9.0	66.9	6.0	133	181.4	
1954	12.6			87	13.6	9.3	62.5	5.8	146	190.5	
1955	17.3			88	18.8	9.2	57.1	5.2	205	202.8	
AVERAGES											
1935—1939	13.1			73	15.6	5.6	66.5	3.7	280		
1947—1955	14.5			86	15.8	10.6	59.7	6.4	149		
1947—1950	14.3			85	15.6	11.9	60.8	7.2	131		
1951—1955	14.7			87	16.0	10.0	59.0	5.9	159		

Table 68. PAPER AND ALLIED PRODUCTS INDUSTRY

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39=100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	4.4	8.5	52	53	3.0	5.5	33.3	1.8	55	97.0	79.4
1936	5.0	8.3	60	53	4.6	4.7	46.4	2.2	98	97.7	92.6
1937	6.6	10.8	61	37	9.5	8.3	35.2	2.9	114	101.6	113.3
1938	2.8	5.2	53	[illegible]	d .8			1.9	75	102.4	99.8
1939	5.8	9.3	62	39	6.7	8.7	30.4	2.6	78	101.4	114.9
1940	8.5	11.1	76	42	13.9	16.2	25.3	4.1	86	102.8	143.0
1941	9.3	9.1	102	45	15.2	23.6	26.2	6.2	64	102.9	191.5
1942	7.2	6.9	104	47	10.2	19.7	34.3	6.8	52	103.8	197.9
1943	5.9	5.3	111	49	7.3	12.3	38.1	4.7	60	106.3	215.1
1944	6.2	5.3	117	50	8.0	10.7	34.2	3.7	74	110.6	235.4
1945	6.3	5.5	115	51	8.2	7.5	34.5	2.6	109	115.5	243.2
1946	12.9	9.8	131	60	19.1	14.0	29.7	4.2	136	125.3	300.3
1947	18.2	11.7	155	68	25.3	25.3	26.1	6.6	100	146.9	417.0
1948	17.3	11.5	151	70	23.5	26.8	30.4	8.2	88	172.4	475.1
1949	12.4	9.8	126	72	16.1	21.8	37.3	8.1	74	190.4	437.6
1950	15.4	10.9	141	74	19.6	19.1	35.3	6.7	102	208.4	538.4
1951	13.4	8.7	154	75	17.0	13.5	41.5	5.6	126	237.9	671.4
1952	10.7	8.1	133	74	13.5	11.3	48.6	5.5	119	266.3	646.9
1953	11.1	8.3	134	76	13.8	11.6	47.6	5.5	118	289.1	709.2
1954	11.9	9.2	129	77	14.7	8.9	47.0	4.2	166	329.0	778.1
1955	12.6	9.5	133	78	15.4	7.0	47.7	3.3	220	379.6	924.6
AVERAGES											
1935—1939	5.0	8.5	58	42	4.7	5.6	43.0	2.4	85		
1947—1955	13.1	9.5	138	75	16.7	12.2	41.1	5.0	136		
1947—1950	15.6	11.0	142	71	20.7	22.8	32.2	7.3	91		
1951—1955	12.0	8.8	136	76	14.9	9.5	46.6	4.4	157		

Table 69. STEEL INDUSTRY

[redacted]	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39=100	
	[redacted] RATE per cent	[redacted] TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	[redacted] RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per [redacted]	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL [redacted] SALES index
1935	1.0	2.6	37	66	d .7			.8	38	94.1	70.2
1936	4.0	7.6	53	65	2.5	4.4	35.2	1.5	58	96.6	102.4
1937	6.0	9.2	65	65	4.7	6.3	39.5	2.5	75	100.4	131.1
1938	.8	2.1	38	65	[redacted] 1.7			1.1	48	103.5	78.8
1939	3.7	6.7	56	64	2.9	5.3	24.0	1.3	54	105.4	117.2
1940	6.6	9.5	70	65	7.5	15.1	38.5	5.8	50	107.1	149.5
1941	7.9	7.7	103	67	9.9	21.3	34.1	7.2	46	110.0	225.9
1942	5.8	4.7	124	70	6.8	18.2	44.6	8.1	37	112.1	277.6
1943	5.1	3.6	140	71	5.3	13.6	54.0	7.3	39	112.9	317.1
1944	5.0	3.6	138	72	5.1	12.6	54.7	6.9	41	114.2	314.4
1945	2.6	2.2	118	74	1.8	3.5	150.6	5.3	52	112.5	266.8
1946	4.2	4.6	93	75	4.1	6.7	70.6	4.7	61	111.9	208.8
1947	7.7	6.1	127	76	8.7	16.5	40.6	6.7	53	115.8	294.4
1948	10.0	6.8	147	76	11.6	21.1	33.4	7.0	55	121.8	358.3
1949	9.6	7.6	128	77	11.2	24.7	36.2	8.9	45	129.3	330.2
1950	12.3	8.2	150	79	14.2	23.6	39.7	9.4	60	137.9	415.2
1951	9.5	5.7	166	79	10.9	15.7	45.2	7.1	69	148.9	495.6
1952	7.0	5.1	138	76	8.1	12.9	58.2	7.5	63	160.9	445.1
1953	9.7	6.0	163	77	11.5	19.7	40.6	8.0	58	167.8	547.3
1954	8.6	6.8	126	78	9.9	12.3	49.7	6.1	81	177.0	446.0
1955	12.6	8.5	148	79	15.1	13.0	38.8	5.0	116	194.1	574.8
AVERAGES											
1935—1939	3.1	6.2	50	65	1.5	2.8	55.3	1.6	55		
1947—1955	9.8	6.8	144	78	11.4	16.3	42.1	6.9	70		
1947—1950	10.0	7.2	138	77	11.6	21.7	37.5	8.1	54		
1951—1955	9.6	6.5	148	78	11.3	14.2	44.9	6.4	79		

Chapter 10

COMMENTS ON RETAIL TRADE GROUP

INDUSTRIES

Five industries have been grouped under the classification "Retail Trade." In order to judge the influence of the specific industries on the Group figures, the per cent which the total capital and sales of each constituted of the aggregate figures in 1955 is set forth in Table 70. Absolute data for each industry and the companies comprising it and for the Group as a whole are also shown.

Mail-Order Houses with 38% of aggregate capital and 29% of total sales constituted the largest industry in the Group, and Apparel & Accessories Chain Stores with 8% of capital and 10% of sales was the smallest.

EARNING POWER

Earnings Rates on Total Capital

Over the entire 1935–55 period (Chart 46) Apparel & Accessories Chain Stores earned a much higher return on its total capital than the other industries. However, in the last six years, this industry has drawn closer to the others in the Group.

As may be seen, each industry's earnings rate rose sharply in 1946. In fact, the 1946 rates of return on total capital for Mail-Order Houses, Grocery Chain Stores, and Department Stores were more than double their 1945 levels and for the other two industries the increases approached two times. Furthermore, the 1946 rates for all of the industries, except one, represented not only the postwar peak but also the all-period high. Mail-Order Houses, the lone exception, reached a slightly higher rate in 1948 (22.1% versus 21.9%).

Period Comparison

Note from the following tabulation that, in spite of the all-period high in 1946, Apparel & Accessories Chains had lower earnings rates in 1947–50 than in 1935–39. It is the only industry in the Group to have a lower earnings level in this early postwar span than in the prewar period. However, in 1951–55 two other industries—Mail-Order Houses and Limited-Price Variety Stores—as well as Apparel & Accessories Chains had lower earnings rates on total capital than in 1935–39. Grocery Chains and Department Stores were the only industries which in both postwar periods had higher earnings rates than in the prewar span.

Industry	Earnings [redacted] Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Apparel & Accessories Chains	14.3%	22.1%	17.2%	23.1%	14.9%
Mail-Order Houses	11.0	18.9	13.6	12.3	11.0
Limited-Price Variety Stores	8.7	14.1	10.8	12.6	9.3
Grocery Chain Stores	8.7	13.6	10.3	8.5	8.7
Department Stores	7.5	11.0	8.8	5.3	8.3
Group	9.7	15.5	11.8	10.5	10.1

In spite of some significant changes in the earnings performance of specific industries over the twenty-one-year span, it is to be noted that their relative positions, with one exception, are the same in each postwar period as in 1935–39. Even though its 1951–55 earnings rate fell considerably below the prewar level, Apparel & Accessories Chains still remained in the top position. Limited-Price Variety Stores, however,

Table 70. [redacted] GROUP

Total Capital and Net Sales by Industries and Companies
1955

Industry and Company	Total Capital: Company	Total Capital: Industry	Net Sales: Company	Net Sales: Industry
	(millions)		(millions)	
Mail-Order Houses				
Sears, Roebuck and Co.	$1,163.4		$3,360.8	
Montgomery Ward [redacted] Co., Inc.	625.7		969.9	
Total		$1,789.1		$4,330.7
Per cent of Group		(38.3%)		(28.9%)
Department Stores				
May Department Stores Co.	$229.6		$494.4	
Allied Stores Corp.	189.9		581.9	
Federated Department Stores, Inc.	160.0		537.7	
Gimbel Brothers, Inc.	126.6		325.0	
Marshall Field & Co.	122.5		201.3	
R. H. Macy & Co., Inc.	120.3		376.4	
City Stores Company	100.2		251.9	
Associated Dry Goods Corp.	67.7		185.1	
Total		1,116.8		2,953.7
Per cent of Group		(23.9%)		(19.7%)
Limited-Price Variety Stores				
F. W. Woolworth Co.	$418.4		$767.8	
S. S. Kresge Co.	192.8		354.6	
S. H. Kress and Co.	98.0		167.9	
W. T. Grant Co.	97.1		351.8	
G. C. Murphy Co.	67.6		196.4	
Total		873.9		1,838.5
Per cent of Group		(18.7%)		(12.3%)
Grocery Chain Stores				
Safeway Stores, Inc.	$242.5		$1,932.2	
The Kroger Co.	143.0		1,219.5	
American Stores Co.	94.0		654.7	
First National Stores, Inc.	56.4		491.7	
Total		535.9		4,298.1
Per cent of Group		(11.4%)		(26.7%)
Apparel & Accessories Chain Stores				
J. C. Penney Co.	$237.7		$1,220.1	
Bond Stores, Inc.	55.5		85.1	
Lerner Stores Corp.	43.2		161.1	
Grayson-Robinson Stores, Inc.	22.3		94.2	
Total		358.7		1,560.5
Per cent of Group		(7.7%)		(10.4%)
Group Total		$4,674.4		$14,981.5

dropped below Mail-Order Houses and, in terms of the 1951–55 averages, was even with Grocery Chains. Department Stores enjoyed a significant increase in their return on total capital—from 5.3% in 1935–39 to 7.5% in 1951–55—but still remained in the lowest position. The 1955 earnings for every industry were as good as or better than the 1951–55 average.

The extent of the percentage changes in earnings rates between the postwar periods and the prewar span may be seen from the following tabulation.

Industry	Percentage Change from 1935–39 Average: 1951–55	1947–50	1947–55	1955
Department Stores	+42%	+108%	+66%	+57%
Grocery Chain Stores	+ 2	+ 60	+21	+ 2
Mail-Order Houses	−11	+ 54	+11	−11
Limited-Price Variety Stores	−31	+ 12	−14	−26
Apparel & Accessories Chains	−38	− 14	−26	−36

There were wide differences in every period but each industry's relative position was the same in all periods. The two industries—Department Stores and Grocery Chain Stores—which had the lowest earnings rates in 1935–39, had the most improvement in the postwar periods. In contrast, Apparel & Accessories Chains, the top earner in 1935–39, suffered the most severe postwar decline.

Trends. As pointed out in Chapter 4, the Apparel & Accessories Chain Stores Industry was one of the seven industries (out of the thirty-three) with [redacted] significant downward trend in their earnings rates on total capital. It is clear from Chart 46 that over the 1935–55 period no pronounced trend existed for any of the other four industries.

Stability. None of the industries in the Group was characterized by pronounced cyclical fluctuations. However, measured [redacted] terms of deviations from the 1935–55 trends, there were some differences in stability. Apparel & Accessories Chains and Limited-Price Variety Stores were the most stable whereas Department Stores and Grocery Chain Stores had the widest fluctuations.

Chart 46. RETAIL TRADE

Earnings Rates on Total Capital by Industries
1935–1955

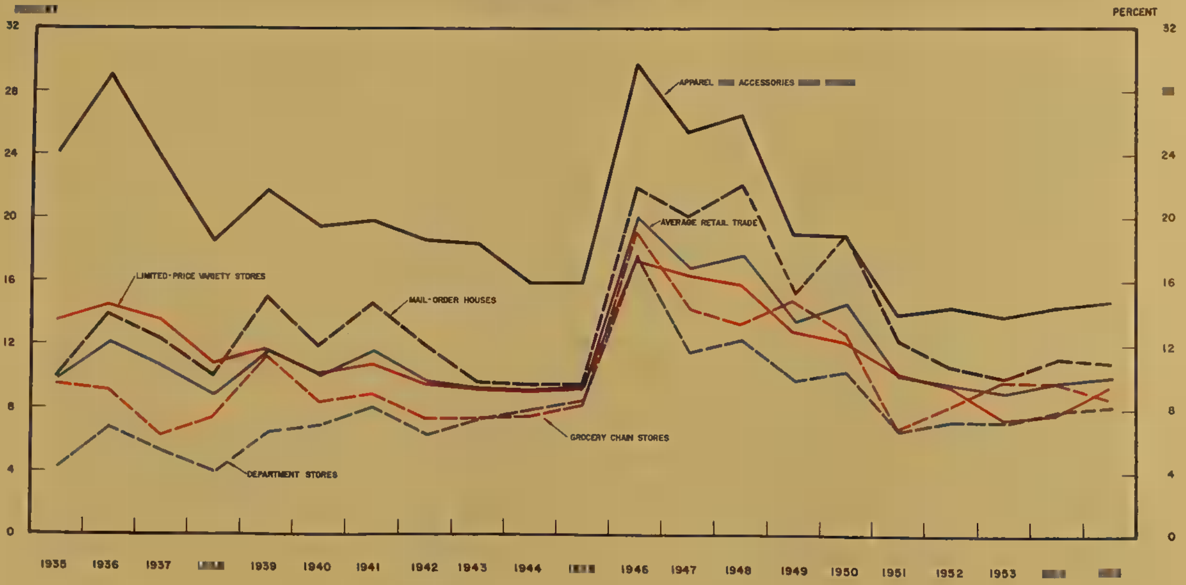
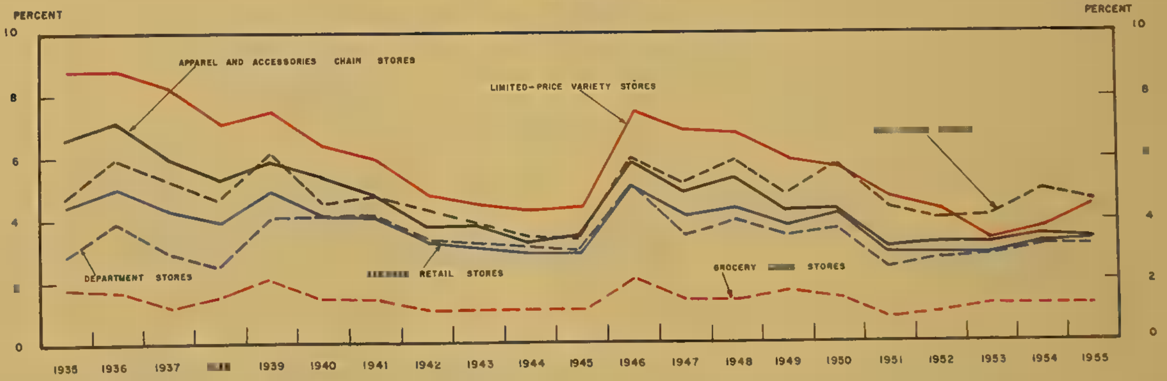


Chart 47. RETAIL TRADE

Earnings Available Total Capital to Sales by Industries

1935–1955



Profit Margins

Two broad observations may be made from an examination of the annual ratios of earnings available total capital to sales (Chart 47): (1) Grocery Chain Stores had by far the lowest profit margin in each year and (2) the margins have drawn closer together in the more recent years.

The following tabulation shows the changes in profit margins for each industry and the Group by periods.

Industry	Profit Margins				
	1951–55	1947–50	1947–55	1935–39	1955
Mail-Order Houses	4.4%	5.5%	4.8%	5.4%	4.6%
Limited-Price Variety Stores	4.0	6.2	4.9	8.0	4.4
Apparel & Accessories Chains	3.3	4.7	3.8	6.1	3.4
Department Stores	2.8	3.7	3.2	3.3	3.1
Grocery Chain Stores	1.0	1.4	1.2	1.6	1.1
Group	3.0	4.1	3.4	4.6	3.2

There was a pronounced decline in the composite profit margin for the Group and an even more marked drop in that for two of the industries. Note that the profit margin for Limited-Price Variety Stores was cut exactly in half (4% in 1951–55 compared to 8% in 1935–39) and that for Apparel & Accessories Chains was slashed almost as drastically (3.3% versus 6.1%). In every instance, however, the 1955 profit margin was above the 1951–55 average.

Capital Turnover

It may readily be seen from Chart 48 that the five Retail Trade Industries turned over their total capital more rapidly in the postwar periods than during 1935–39. Although information as to the value of leased facilities is not published, available data regarding leased stores do not indicate that the increased turnover was due to a significant change in this respect. Available information does not, however, indicate whether some of the increase might be attributable to a greater use of leased warehouses or other facilities.

Period Comparison. The following compilation shows that a considerable over-all increase in capital turnover was achieved in the early postwar period and has been relatively well maintained. The 1947–50 and 1951–55 averages were 377% and 327%, respectively, while the prewar level was 227%.

Industry	Sales to Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Grocery Chain Stores	854%	959%	890%	545%	802%
Apparel & Accessories Chains	437	468	449	376	435
Department Stores	265	297	277	158	264
Mail-Order Houses	250	347	282	227	239
Limited-Price Variety Stores	216	225	220	158	210
Group	327	377	345	227	319

As in the case of return on total capital, there has been little change in the prewar and postwar positions of the industries. Department Stores had the most pronounced increase in capital turnover of all industries in the Group—1951–55 was 68% above 1935–39. Grocery Chains, which had a 57% increase in turnover, ranked next.

Significantly, in 1955 the relationship of sales to total capital was in every instance lower than the 1951–55 average. This fact is in contrast to the earnings rate situation previously discussed.

Growth in Sales and Total Capital. Below are presented indexes of sales and total capital (1935–39 = 100) for each of the industries in the Retail Trade Group for selected periods.

Although the Group as a whole had relatively limited growth in both sales and total capital, there was a fairly wide range between the industry with the least growth and that with the most in each period and on both bases.

The period rankings of the industries in terms of growth in both sales and total capital were very comparable. Only one industry's positions were substantially different on the two bases. Grocery Chain Stores,

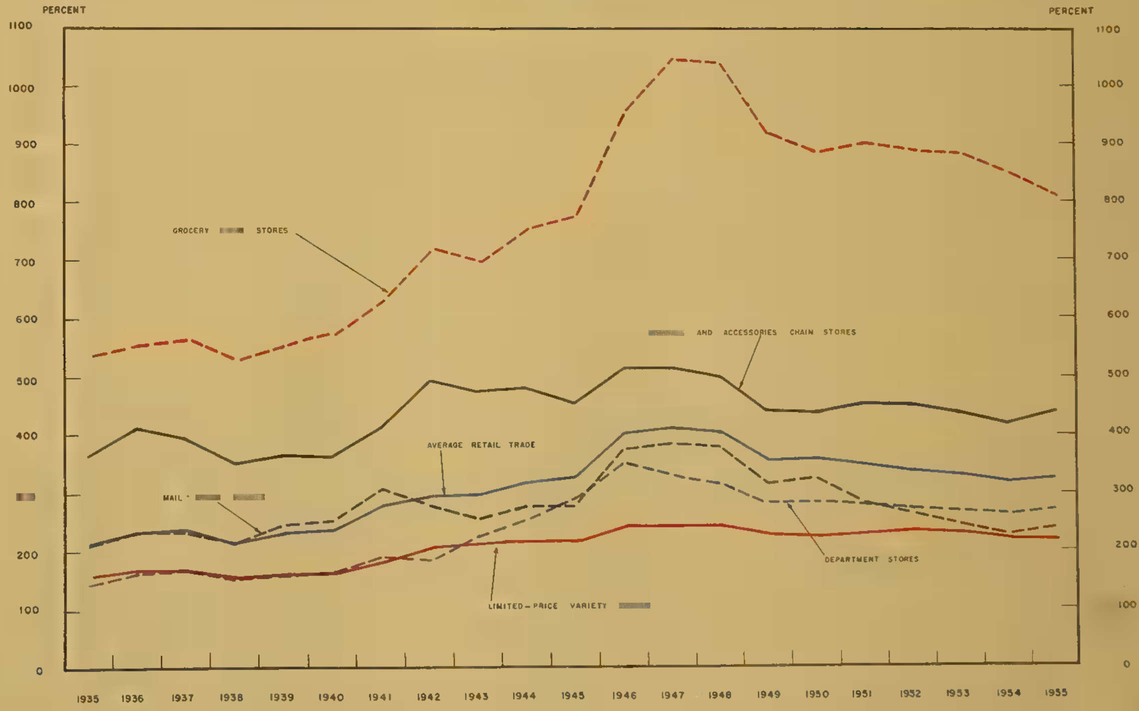


Chart 48. RETAIL TRADE

Sales to Total Capital by Industries
1935–1955

Table 71. RETAIL TRADE GROUP

Comparative Industry Performance
Indexes of Sales and Total Capital
Selected Periods

Industry	1951–55	1947–50	1935–39	1955
	Index of Sales			
Grocery Chain Stores	461.7	326.0	100.0	516.6
Mail-Order Houses	442.0	378.5	100.0	475.1
Apparel [illegible] Accessories Chains	432.6	344.7	100.0	469.6
Department Stores	379.1	321.8	100.0	413.5
Limited-Price Variety Stores	256.0	214.8	100.0	274.7
	Index of Total Capital			
Mail-Order Houses	402.2	247.7	100.0	451.3
Apparel and Accessories Chains	371.0	276.2	100.0	404.9
Grocery Chain Stores	294.5	185.2	100.0	351.0
Department Stores	225.7	170.8	100.0	246.7
Limited-Price Variety Stores	186.4	150.3	100.0	205.9

which showed the greatest sales growth from 1935–39 to both 1951–55 and 1955, ranked third with respect to growth in total capital.

Earnings Rate on Common Stock Capital

Common Stock as a Per Cent of Total Capital. Although the relationship of the common stock to total capital remained nearly constant for the Group as a whole, it changed substantially in the case of Grocery Chains and, to a somewhat less extent, for Department Stores. In the former instance, leverage was increased significantly. Whereas common stock averaged 84% of total capital for Grocery Chains in 1935–39, it fell to an average of 68% over the last five years and in 1955 was down to 66%. In regard to Department Stores, the move was in the reverse direction. Common rose from 50% of total capital (1935–39) to 64% in 1955. No marked changes have taken place in the other three industries, although there has been a tendency toward [illegible] decrease in the common stock proportions and thus toward a slight increase in leverage.

Industry	Common Stock Per Cent of Total Capital				
	1951–55	1947–50	1947–55	1935–39	1955
Limited-Price Variety Stores	90%	94%	92%	93%	86%
Apparel & Accessories Chains	89	89	89	94	89
Mail-Order Houses	87	[illegible]	91	95	88
Grocery Chain Stores	68	80	72	84	66
Department Stores	63	63	63	50	64
Group	80	85	82	79	79

Comparative Return [illegible] Common Stock and on Total Capital. There are two primary points to be made with respect to the earnings on common-stock capital. First, the same observations which were made in regard to the broad pattern of the returns on total capital for the five industries are also applicable to the earnings rates on common-stock capital (Chart 49). Second, note from Table 72 that whereas Grocery Chain Stores stood in fourth place in each period on the basis of return on total capital, with respect to the earnings rate on common stock, it climbed from fourth place in 1935–39 to third place in each postwar period. A reverse change occurred in the case of Limited-Price Variety Stores. The industry ranked second on both bases in 1935–39. In the postwar periods it dropped to third place in terms of earnings on total capital but had the lowest ranking in terms of return on common stock in the Group.

The effect of the Department Stores' higher postwar ratio of common stock to total capital (decreased leverage) is somewhat obscured by the Limited-Price Variety Stores' sharp postwar decline in earnings rates. Although Department Stores was in fifth place in all periods with respect to earnings rates on total capital, on the basis of the return on common stock, it stood ahead of Limited-Price Variety Stores in the postwar periods.

Summary

The foregoing examination of the earning power of the five industries comprising the Retail Trade Group developed four major facts.

Chart 49. RETAIL TRADE

Earnings Rates on Common Stock Capital by Industries
1935–1955

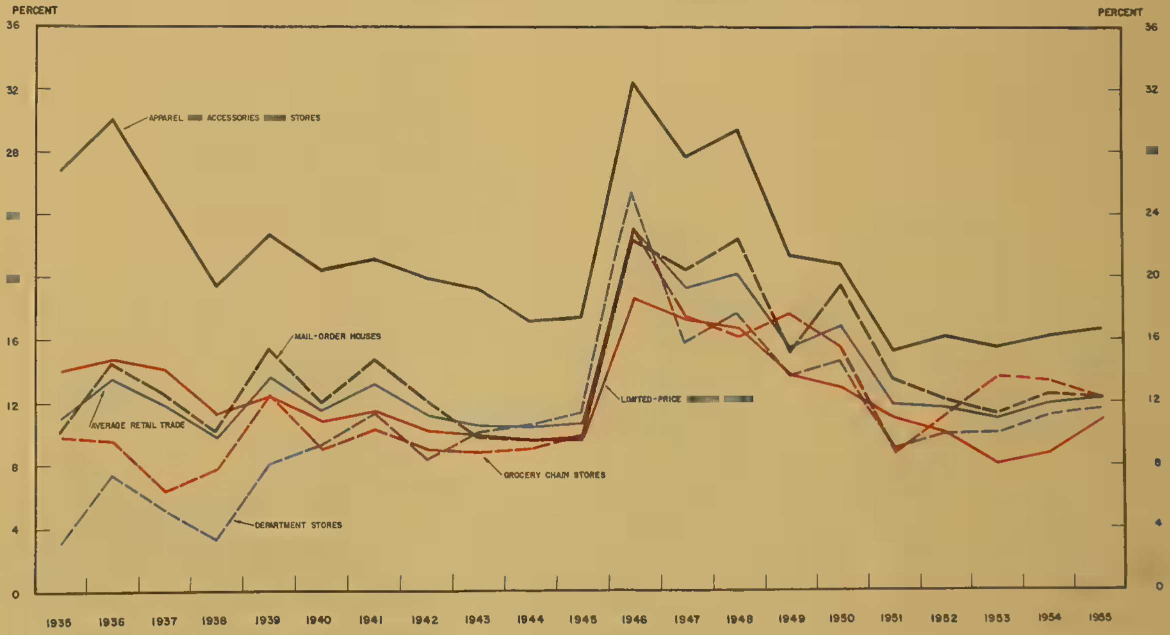


Table 72. COMPARATIVE INDUSTRY PERFORMANCE

Earnings Rates on Common Stock and Total Capital for Selected Periods
Industries Ranked According to 1951–55 Average

Industry	1951–55		1947–50		1947–55		1935–39		1955	
	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital	Common Stock	Total Capital
Apparel & Accessories Chains	15.9%	14.3%	24.3%	22.1%	19.0%	17.2%	24.4%	23.1%	16.5%	14.9%
Mail-Order Houses	12.3	11.0	19.2	18.9	14.8	13.6	12.6	12.3	12.3	11.0
Grocery Chain Stores	11.6	8.7	16.3	13.6	13.3	10.3	9.0	8.5	11.9	8.7
Department Stores	10.2	7.5	15.3	11.0	12.1	8.8	5.3	5.3	11.4	8.3
Limited-Price Variety Stores	9.4	8.7	14.8	14.1	11.6	10.8	13.1	12.6	10.6	9.3
Group	11.5	9.7	17.5	15.5	13.8	11.8	11.8	10.5	12.1	10.1

(1) Although the 1951–55 average earnings rates on total capital for three industries—Mail-Order Houses, Limited-Price Variety Stores, and Apparel & Accessories Chains—and for the Group were lower than their 1935–39 averages, only the last industry had a pronounced downward trend over the 1935–55 period. The lower postwar earnings rates were due in every case to lower profit margins which more than offset the improvement in capital turnover. (2) There were fairly wide differences between the individual industries, but the Group as a whole was characterized by moderate growth in sales and total capital. (3) Only Grocery Chain Stores and Department Stores had significant changes in the relationship of common stock to total capital although in opposite directions. (4) As a result of increased leverage, Grocery Chain Stores ranked higher on the basis of return on common stock than on total capital in the postwar periods. In spite of an increase in the postwar period, Department Stores still had the lowest percentage of common to total capital and ranked higher with respect to earnings rates on common stock than on total capital.

MARKET VALUATION

Earnings-Price Ratios

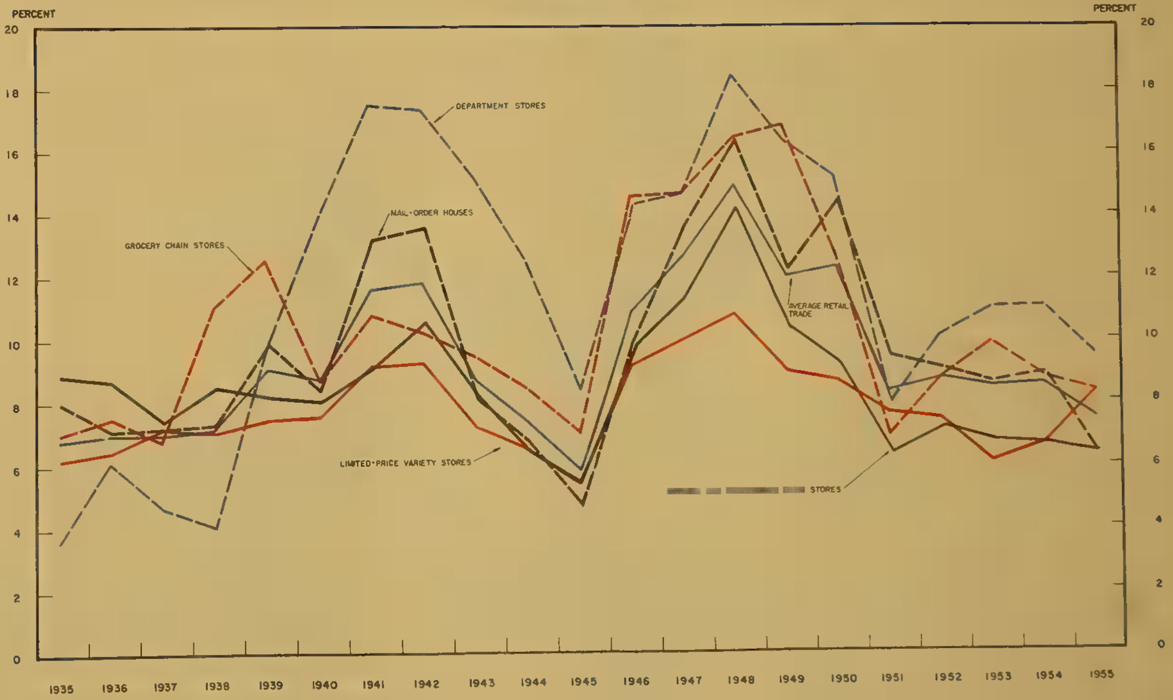
Marked changes have occurred in the composite earnings-price ratios of the Retail Trade Group over the past twenty-one years (Chart 50). The 1935–39 average was 7.3% (nearly 14x), the 1945 low 5.6% (almost 18x), the 1948 high 14.7% (hardly 7x), and in 1955 it was 7.2%, or nearly identical to the 1935–39 average.

Industry	Earnings-Price Ratios					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Apparel & Accessories Chains	6.6%	11.1%	8.2%	8.2%	8.3%	6.3%
Limited-Price Variety Stores	7.1	9.5	8.1	9.6	6.8	8.2
Mail-Order Houses	8.2	14.1	10.2	9.5	7.9	6.4
Grocery Chain Stores	8.5	14.8	10.5	10.2	8.7	8.2
Department Stores	9.7	15.9	11.9	11.4	5.6	9.3
Group	8.0	12.7	9.7	9.1	7.3	7.2

As indicated by the low 1935–39 average earnings yield, the prewar earnings of Department Stores were valued more highly than those of any other industry in the Group. However, in each subsequent period Department Store earnings had the highest yield (lowest earnings multiplier). In contrast, Apparel & Accessories Chains stood next to the bottom in the prewar span but in the postwar years ranked in first or second place—according to the period selected. This higher ranking

Chart 50. RETAIL TRADE

Earnings-Price Ratios by Industries
1935–1955



is in the face of a postwar decline in the return on both total capital and common stock capital.

As pointed out in Chapter 5, Retail Trade's 1951–55 earnings yield was lower (multiplier higher) relative to its 1935–55 average than that of any of the other groups. Among the industries in the Retail Trade Group, Limited-Price Variety Stores, based on a comparison of the same two periods, showed the largest decline in earnings yields (increase in multiplier). Next came Apparel & Accessories Chains, followed by Grocery Chain Stores, Department Stores, and Mail-Order Houses.

Payout Rates

The following data show the extent to which there has been a decline in the composite payout rate for the Group. In the early postwar years, the payout rate dropped down substantially for all five industries and then, subsequently, rose. As a result, the 1947–50 averages are well below those for 1935–39. Furthermore, while every industry showed a substantial increase in the 1951–55 period all, with the exception of Limited-Price Variety Stores, were lower than in 1935–39.

Industry	Per Cent of Earnings Paid Out in Dividends					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Limited-Price Variety Stores	74.4%	59.3%	66.6%	67.6%	71.2%	62.2%
Apparel & Accessories Chains	71.3	54.6	63.3	65.9	75.2	67.7
Department Stores	61.8	46.7	54.7	51.6	71.9	53.4
Grocery Chain Stores	59.5	40.7	51.0	55.6	75.8	53.9
Mail-Order Houses	53.5	40.3	47.4	50.5	65.9	53.1
Group	61.2	47.0	54.5	56.9	70.4	56.5

Two industries reversed their positions. Limited-Price Variety Stores was in fourth place in 1935–39 and first place in both postwar periods, while Grocery Chain Stores, which had the highest payout rate in 1935–39, ranked fourth in the postwar periods. In terms of the relationship of the last five years to the prewar level, Grocery Chain Stores reduced its payout rate more heavily than any other industry in the Group. It was followed by Mail-Order Houses and Department Stores. In contrast Limited-Price Variety Stores had a slightly higher 1951–55 payout rate than in 1935–39. In every instance the 1955 payout rates were below the 1951–55 average.

Dividend Yields

Over the entire twenty-one-year period, the Group's dividend yields displayed a high degree of stability and an almost horizontal trend (Chart 51). With the exception of Department Stores, whose yields since 1946 were considerably higher than those of the other industries, the postwar yields lie within a very narrow band.

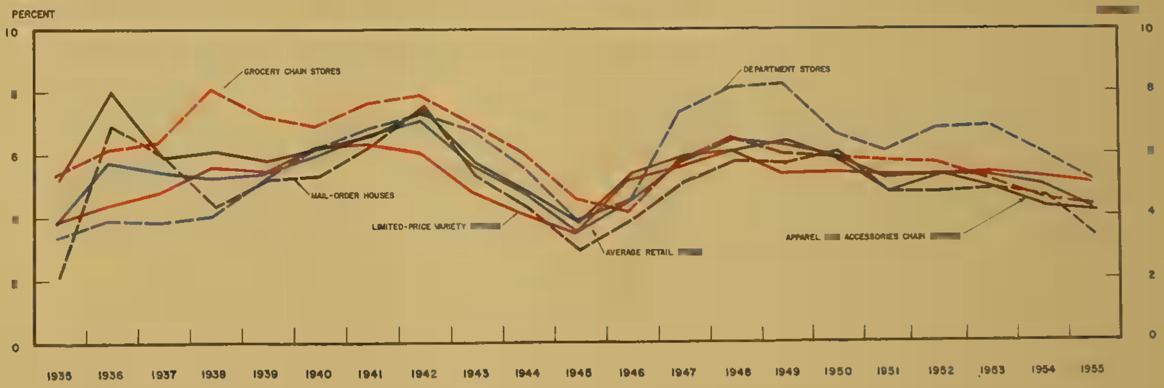
Industry	Dividend Yields					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Mail-Order Houses	4.4%	5.7%	4.8%	4.8%	5.2%	3.4%
Apparel & Accessories Chains	4.7	6.0	5.2	5.4	6.2	4.2
Grocery Chain Stores	5.0	6.0	5.4	5.7	6.6	4.4
Limited-Price Variety Stores	5.3	5.6	5.4	5.2	4.8	5.1
Department Stores	6.0	7.4	6.5	5.9	4.0	5.0
Group	4.9	6.0	5.3	5.2	5.2	4.1

Note from the foregoing tabulation that there has been a marked shift in the relative rankings of the industries. The industry with the lowest average dividend yield in 1935–39—Department Stores—had the highest yields in 1947–50 and 1951–55, and in 1955 was only slightly below the highest. Limited-Price Variety Stores, which had next to the lowest yields in 1935–39, had next to the highest in 1951–55 and the highest in 1955. This notable shift in rankings resulted from contrasting movements of yields of the several industries. Department Stores and Limited-Price Variety Stores had upward trends and the other three had downward trends, although for Mail-Order Houses the trend was nearly horizontal.

Comparing 1951–55 to 1935–55, Apparel & Accessories Chain Stores had the largest decline of dividend yield. Grocery Chain Stores came next, with an almost equal decline in yield; it was followed by Mail-Order

Chart 51. RETAIL TRADE

Dividend Yields by Industries
1935–1955



Houses. Both Department Stores and Limited-Price Variety Stores had higher yields in 1951–55 than in the 1935–55 period.

Market Value to Book Value

The most prominent feature of the market-to-book relationships was the wide difference in each year between Apparel & Accessories Chains and the remainder of the Group (Chart 52). The levels of the four other industries were not only considerably lower than that for Apparel & Accessories Chains but also relatively close together.

The composite valuation of the five industries was lower in the post-war periods than in the prewar span. In 1935–39 $1.00 of book value sold for $1.61 in the market, but in 1947–50 for $1.38 and in 1951–55 for $1.44. However, in 1955, the valuation jumped to $1.68.

Industry	Market Value to Book Value					
	1951–55	1947–50	1947–55	1935–55	1935–39	1955
Apparel & Accessories Chains	241%	220%	233%	247%	294%	264%
Mail-Order Houses	150	136	145	148	160	193
Grocery Chain Stores	137	110	127	119	104	145
Limited-Price Variety Stores	132	156	142	153	103	128
Department Stores	106	96	102	100	96	122
Group	144	138	142	146	161	168

Once more comparing 1951–55 averages to 1935–55 ones, Grocery Chain Stores showed the greatest increase, followed by Department Stores and Mail-Order Houses. Both Limited-Price Variety Stores and Apparel & Accessories Chains suffered declines.

Summary

Several significant facts were brought out in the preceding discussion of market valuation. (1) The composite earnings-price ratio in 1951–55 was somewhat higher than in 1935–39 but the earnings-price ratios for both Apparel & Accessories Chains and Grocery Chain Stores were lower in 1951–55. Compared to their 1935–55 averages, all industries had lower earnings-price ratios (higher multipliers) in 1951–55. (2) Payout rates increased in the last five years, but, with the exception of Limited-Price Variety Stores, all were below their 1935–39 levels. (3) Although the Group's 1951–55 dividend yield was lower than for 1935–39 and for 1935–55, those of both Limited-Price Variety Stores and Department Stores were higher. (4) Apparel & Accessories Chains had a substantially higher market-to-book relationship in each year than the other industries. However, this industry and Limited-Price Variety Stores were the only two whose 1951–55 averages were lower than for 1935–55.

Chart 52. RETAIL TRADE

Market Value to Book Value by Industries
1935–1955

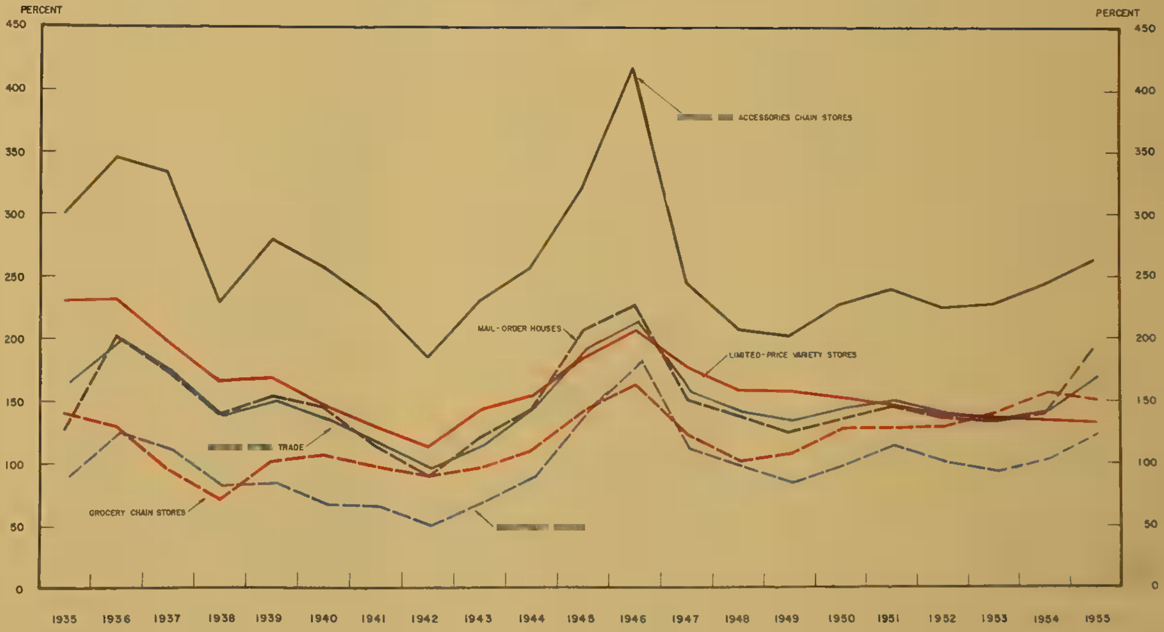


Table 73. APPAREL AND ACCESSORIES CHAIN STORES

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	[redacted] TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	[redacted] YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	24.1	6.6	364	87	26.8	8.9	57.8	5.2	300	91.4	86.5
1936	29.1	7.1	412	96	30.1	8.7	91.8	8.0	345	92.4	99.1
1937	23.7	6.0	394	95	24.8	7.4	78.6	5.9	333	100.0	105.6
1938	18.5	5.3	352	95	19.4	8.5	72.7	6.1	229	105.2	99.4
1939	21.7	5.9	365	95	22.7	8.2	71.2	5.8	276	111.5	109.4
1940	19.4	5.4	361	94	20.4	8.0	77.2	6.2	256	123.3	119.5
1941	19.8	4.8	413	94	21.0	9.3	70.7	6.6	226	134.3	149.1
1942	18.6	3.8	494	94	19.8	10.7	69.3	7.4	184	142.4	188.8
1943	18.3	3.8	476	94	19.2	8.4	68.2	5.7	230	150.8	192.5
1944	15.9	3.3	480	91	17.0	6.5	73.9	4.8	261	164.9	212.3
1945	15.9	3.5	453	89	17.3	5.4	70.8	3.8	320	179.1	217.5
1946	29.7	5.8	513	90	32.4	9.7	55.5	5.4	336	195.5	267.2
1947	25.4	4.9	514	91	27.6	11.3	52.5	5.9	244	223.8	306.8
1948	26.5	5.3	500	89	29.3	14.2	43.2	6.1	207	263.6	351.8
1949	19.0	4.3	439	88	21.2	10.4	61.8	6.4	203	298.2	348.6
1950	18.9	4.3	437	89	20.8	9.2	63.0	5.8	228	319.1	371.5
1951	13.9	3.1	451	89	15.2	6.3	76.4	4.8	241	336.9	405.0
1952	14.4	3.2	450	88	16.1	7.1	74.0	5.3	226	353.9	424.4
1953	13.8	3.2	437	88	15.4	6.7	74.5	5.0	229	371.8	433.3
1954	14.5	3.5	417	88	16.1	6.6	65.8	4.3	245	387.7	430.9
1955	14.9	3.4	435	89	16.5	6.3	67.7	4.2	264	404.9	469.6
AVERAGES											
1935—1939	23.1	6.1	376	94	24.4	8.3	75.2	6.2	294		
1947—1955	17.2	3.8	449	89	19.0	8.2	63.3	5.2	233		
1947—1950	22.1	4.7	468	89	24.3	11.1	54.6	6.0	220		
1951—1955	14.3	3.3	437	89	15.9	6.6	71.3	4.7	241		

Table 74. DEPARTMENT STORES

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	[redacted] TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET [redacted] per cent	AVERAGE TOTAL CAPITAL index	ANNUAL [redacted] index
1935	4.2	2.9	147	48	3.0	3.5	96.9	3.4	86	99.5	92.5
1936	6.6	4.0	164	49	7.4	6.0	65.8	3.9	123	98.2	102.4
1937	5.1	3.1	167	50	5.0	4.6	83.9	3.8	109	99.6	105.4
1938	4.0	2.6	152	50	3.2	4.0	100.0	4.0	79	100.6	96.9
1939	6.4	4.1	159	51	8.0	9.8	50.8	5.0	82	102.2	102.7
1940	6.8	4.2	163	53	9.1	13.9	44.5	6.2	65	105.5	109.3
1941	7.9	4.2	188	53	11.2	17.4	38.9	6.8	64	108.3	128.8
1942	6.2	3.4	184	55	8.3	17.2	42.2	7.3	48	112.6	131.0
1943	7.2	3.3	222	55	10.0	15.0	44.7	6.7	67	114.5	161.1
1944	7.8	3.1	249	59	10.5	12.3	44.7	5.5	86	113.8	179.8
1945	8.6	3.0	286	60	11.2	8.1	47.0	3.8	137	114.9	208.4
1946	17.7	5.1	349	63	25.5	14.2	32.0	4.6	179	125.5	277.4
1947	11.5	3.5	329	64	15.8	14.5	49.8	7.2	109	144.2	300.6
1948	12.3	4.0	312	62	17.7	18.3	43.9	8.0	97	165.5	327.0
1949	9.8	3.5	278	62	13.6	16.1	50.4	8.1	84	181.3	319.0
1950	10.4	3.7	280	64	14.5	15.0	44.1	6.6	96	192.1	340.7
1951	6.6	2.4	272	63	8.7	7.7	77.1	6.0	112	207.5	357.6
1952	7.3	2.7	268	63	9.8	9.9	67.4	6.7	99	217.4	368.7
1953	7.3	2.8	264	63	9.8	10.8	63.5	6.8	91	224.3	375.0
1954	8.0	3.1	258	63	11.0	10.8	54.3	5.9	101	232.4	380.5
1955	8.3	3.1	264	64	11.4	9.3	53.4	5.0	122	246.7	413.5
AVERAGES											
1935—1939	5.3	3.3	158	50	5.3	5.6	71.9	4.0	96		
1947—1955	8.8	3.2	277	63	12.1	11.9	54.7	6.5	102		
1947—1950	11.0	3.7	297	63	15.3	15.9	46.7	7.4	96		
1951—1955	7.5	2.8	265	63	10.2	9.7	61.8	6.0	106		

Table 75. GROCERY CHAIN STORES

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	9.3	1.7	533	88	9.7	7.0	78.5	5.5	137	93.4	91.4
1936	8.9	1.6	552	85	9.4	7.5	84.2	6.3	126	97.5	98.9
1937	6.0	1.1	563	82	6.2	6.8	96.2	6.5	91	101.2	104.5
1938	7.2	1.4	527	81	7.6	11.1	74.2	8.2	68	103.7	100.2
1939	11.0	2.0	550	82	12.2	12.5	58.5	7.3	98	104.2	105.2
1940	8.1	1.4	568	82	8.8	8.6	81.2	7.0	102	106.6	111.2
1941	8.7	1.4	625	77	10.1	10.8	71.2	7.7	94	116.3	133.4
1942	7.1	1.0	712	73	8.7	10.2	77.4	7.9	85	128.4	167.9
1943	7.2	1.0	690	75	8.5	9.4	74.2	7.0	90	131.8	166.9
1944	7.3	1.0	746	74	8.8	8.3	72.0	6.0	106	131.9	180.6
1945	8.0	1.0	770	77	9.5	7.0	65.3	4.6	137	130.8	184.8
1946	19.0	2.0	947	80	22.9	14.5	28.9	4.2	158	137.7	239.5
1947	14.2	1.4	1036	80	17.0	14.6	39.9	5.8	116	157.8	300.1
1948	13.3	1.3	1033	80	15.8	16.4	39.2	6.5	96	176.0	333.7
1949	14.7	1.6	918	81	17.3	16.8	36.0	6.0	103	190.1	320.2
1950	12.5	1.4	880	79	15.1	12.4	47.6	5.9	122	216.8	350.1
1951	6.7	.7	894	72	8.3	6.8	85.0	5.8	123	247.5	406.3
1952	8.1	.9	881	67	10.9	8.7	65.2	5.7	125	271.8	439.6
1953	9.8	1.1	875	67	13.3	9.8	52.9	5.2	135	288.6	463.5
1954	9.6	1.1	840	68	12.9	8.6	53.2	4.6	151	313.4	482.9
1955	8.7	1.1	802	66	11.9	8.2	53.9	4.4	145	351.0	516.6
AVERAGES											
1935—1939	8.5	1.6	545	84	9.0	8.7	75.8	6.6	104		
1947—1955	10.3	1.2	890	72	13.3	10.5	51.0	5.4	127		
1947—1950	13.6	1.4	959	80	16.3	14.8	40.7	6.0	110		
1951—1955	8.7	1.0	854	68	11.6	8.5	59.5	5.0	137		

Table 76. LIMITED-PRICE VARIETY STORES

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						INDEXES — 1935-39 = 100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	[redacted] TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	[redacted] RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET SALES index
1935	13.4	8.7	155	93	14.0	6.2	64.3	4.0	227	92.9	91.0
1936	14.2	8.7	164	95	14.7	6.4	69.5	4.5	228	95.1	99.1
1937	13.4	8.2	162	93	14.0	7.2	68.1	4.9	193	100.0	103.0
1938	10.6	7.0	152	92	11.2	7.0	81.6	5.7	161	104.7	100.9
1939	11.5	7.4	156	92	12.1	7.4	74.3	5.5	163	107.3	105.9
1940	10.0	6.3	159	91	10.6	7.5	83.9	6.3	142	110.6	111.7
1941	10.5	5.9	177	90	11.3	9.1	71.4	6.5	125	113.1	126.8
1942	9.3	4.7	201	90	10.0	9.2	66.5	6.1	109	114.0	144.9
1943	9.0	4.4	205	90	9.7	7.1	67.1	4.8	137	116.4	151.7
1944	8.9	4.2	210	90	9.5	6.4	66.5	4.2	149	119.8	159.7
1945	9.0	4.3	210	91	9.7	5.4	64.6	3.5	180	123.6	164.7
1946	17.1	7.4	233	92	18.4	9.1	57.2	5.2	201	129.1	190.8
1947	16.2	6.8	236	94	17.0	9.9	56.5	5.6	172	136.5	204.3
1948	15.7	6.7	234	95	16.5	10.7	56.9	6.1	154	145.9	216.6
1949	12.8	5.9	219	94	13.4	8.8	61.8	5.4	153	155.3	215.5
1950	12.1	5.6	215	94	12.7	8.5	62.6	5.4	148	163.6	222.6
1951	10.1	4.6	221	94	10.6	7.5	70.4	5.3	141	171.3	239.8
1952	9.3	4.2	224	94	9.8	7.3	73.2	5.3	134	176.7	251.4
1953	7.3	3.3	220	92	7.7	5.9	91.3	5.4	130	183.4	255.7
1954	7.6	3.6	209	[redacted]	8.4	6.5	80.8	5.3	129	194.9	258.2
1955	9.3	4.4	210	86	10.6	8.2	62.2	5.1	128	205.9	274.7
AVERAGES											
1935—1939	12.6	8.0	158	93	13.1	6.8	71.2	4.8	193		
1947—1955	10.8	4.9	220	92	11.6	8.1	66.6	5.4	142		
1947—1950	14.1	6.2	225	94	14.8	9.5	59.3	5.6	156		
1951—1955	8.7	4.0	216	90	9.4	7.1	74.4	5.3	132		

Table 77. MAIL-ORDER HOUSES

YEAR	TOTAL CAPITAL			COMMON STOCK CAPITAL						[redacted] — 1935-39=100	
	EARNINGS RATE per cent	EARNINGS TO SALES per cent	[redacted] TO TOTAL CAPITAL per cent	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent	AVERAGE TOTAL CAPITAL index	ANNUAL NET [redacted] index
1935	10.0	4.7	210	93	10.1	8.0	26.4	2.1	126	82.3	76.1
1936	13.9	6.0	231	94	14.4	7.1	97.0	6.9	202	93.5	95.1
1937	12.3	5.3	231	95	12.6	7.2	82.9	6.0	174	103.8	105.7
1938	10.0	4.7	216	95	10.2	7.3	59.2	4.3	140	106.9	101.7
1939	15.0	6.2	243	95	15.4	9.9	52.1	5.2	154	113.2	121.4
1940	11.8	4.6	255	96	12.0	8.4	62.7	5.3	143	120.5	135.6
1941	14.5	4.8	305	96	14.8	13.2	48.2	6.3	113	128.0	172.0
1942	11.9	4.3	277	96	12.1	13.6	55.4	7.6	89	136.9	167.0
1943	9.6	3.8	255	96	9.7	8.1	65.7	5.3	120	143.5	160.9
1944	9.5	3.5	273	97	9.6	6.7	64.9	4.3	143	148.9	178.8
1945	9.5	3.4	278	97	9.6	4.7	62.2	2.9	206	154.4	188.9
1946	21.9	5.9	371	97	22.3	9.9	39.4	3.9	226	175.6	287.4
1947	20.1	5.2	384	98	20.4	13.6	37.4	5.1	150	206.3	348.9
1948	22.1	5.9	377	98	22.4	16.3	35.6	5.8	137	234.9	389.7
1949	15.0	4.8	313	98	15.2	12.2	47.0	5.7	124	261.8	361.4
1950	19.1	5.8	326	98	19.4	14.4	42.0	6.1	134	287.9	414.1
1951	12.4	4.4	281	91	13.5	9.4	51.3	4.8	144	338.0	418.1
1952	10.6	4.0	263	86	12.1	9.0	53.5	4.8	134	385.9	446.3
1953	10.0	4.1	246	[redacted]	11.3	8.6	56.6	4.9	131	407.9	442.3
1954	11.2	4.9	227	87	12.5	8.9	53.3	4.7	142	428.1	428.0
1955	11.0	4.6	239	[redacted]	12.3	6.4	53.1	3.4	193	451.3	475.1
AVERAGES											
1935—1939	12.3	5.4	227	95	12.6	7.9	65.9	5.2	160		
1947—1955	13.6	4.8	282	91	14.8	10.2	47.4	4.8	145		
1947—1950	18.9	5.5	347	[redacted]	19.2	14.1	40.3	5.7	136		
1951—1955	11.0	4.4	250	87	12.3	8.2	53.5	4.4	150		

Appendix A

Application of "All-inclusive" Approach to Major Items

The exact manner in which the "all-inclusive" approach has been employed is important to the reader in interpreting the data developed. Accordingly, in the following paragraphs, certain aspects of the principle are amplified in connection with its application to specific major items.

War Losses on Foreign Assets

Some companies with foreign assets in either enemy countries or territory overrun by the enemy wrote off these assets against income while others wrote them off against surplus. Even though ownership of nearly all of these assets was regained, the scope of the destruction was in many cases substantial. Consequently a *real* loss was suffered. Although it is realized that foreign assets are subject to losses of this type and that in some areas political instability tends to be the rule rather than the exception, it is considered that such losses are unrelated to the "normal operations of a business." Thus, war losses on foreign assets and, contrariwise, recoveries on foreign assets are excluded from the income account.

Gains or Losses Due to Fluctuations in Foreign Exchange

Credits to or charges against income arising as a result of either actual fluctuations in foreign exchange or transfers to or from a reserve for that purpose have been accepted as reported. Similarly, charges against income for the unremitted earnings of foreign subsidiaries have been accepted as reported.

In this connection, it was considered that the frequency of the profits or losses removed this item from the non-recurring class and the reserve from the net worth category.

Surplus Reserves

After eliminating from the reserve account all transfers to and from surplus in a year, a net increase in a surplus reserve account was added to income and a net decrease was deducted.

Pension Plans

There are two fundamental types of charges for a pension plan: (1) those to cover current-service costs and (2) those to take care of past-service liabilities. If the current-service costs were charged to income they were allowed to stand, whether funded or carried to a reserve. If, in contrast, the current-service costs were charged to surplus, income has been adjusted to reflect the charge. If the past-service liabilities were charged to income, they were allowed to stand only to the extent that the liabilities were funded or paid out. Contrariwise, if the past-service liabilities were charged to surplus, income has been adjusted as the liabilities were funded or paid off. In other words, current-service costs have been treated as deductions from income as they occurred, whereas past-service liabilities were treated as deductions from income only if they were funded or paid out.

Although a pension reserve arising out of a labor contract is clearly a liability-type reserve, it has been included in both total capital and equity capital. Actually, the reserve represents capital—usually in the form of retained earnings—earmarked to cover an estimated obligation payable to employees over some future period. As long as this money is at work in the business, it is capital just as much as any other funds in the enterprise and thus should be treated as part of total capital. The controversial point is the inclusion of a liability reserve in equity capital. While this is not the usual practice, we consider that analytical procedures should be adapted to the objectives sought. In the present study, an important objective has been the presentation of data which reflect as accurately as possible the long-run earnings rates on both total capital and common-stock capital. Since pension reserves are created from retained earnings, their exclusion would reduce—in some instances sharply—the capital base to which common stock earnings are related. The effect would be a proportionate increase in leverage and the appearance of an improved rate of earnings on common stock capital. Moreover, the effect on the earnings rate would be the same as if the company had obtained financing from external sources at no cost. Clearly, such is not the case. Therefore, to eliminate this spurious leverage, pension reserves have been included in common-stock capital.

Insurance Reserves

The general accounting approach is to consider insurance reserves as being in the surplus category. For example, W. A. Paton (in *Advanced Accounting*, New York: The Macmillan Company, 1941) states,

> Such a reserve is ordinarily set up by charging operations period by period with either estimated average losses or the cost of an adequate program of insurance, plus a more or less substantial amount as a safety factor. This means that the account is typically a combination of a long-run equalization reserve and a reserve for contingencies. Under these circumstances how should a credit balance in the insurance reserve be interpreted? To the extent of an amount carefully calculated on the basis of experience it does not appear unreasonable at first sight to interpret the reserve as a long-run offset to property account. Upon a more careful examination of the matter, however, even such a qualified position is found to be untenable. The only defensible interpretation is that which construes the entire credit balance of the account as a pure surplus reserve . . . Fire losses do not accrue like depreciation, and hence the insurance reserve credit is not an offset to property. For example, freight cars which have not been destroyed are sound assets, regardless of the statistical plausibility of the scheme of accruing losses. Existing property, moreover, is not placed in greater jeopardy for the future as a result of no losses or small losses in the current or preceding periods.

The view that insurance reserves should be treated as a part of surplus is concurred in. Accordingly, such reserves have been included in equity capital. On the other hand, charges to income for an insurance reserve are considered to be in lieu of insurance premiums and, therefore, have been accepted as reported. Moreover, if in any year, a company created an insurance reserve by charging surplus the amount of the charge was deducted from income.

Accelerated Depreciation

Since approximately 1940, depreciation charges in many companies—due either to Necessity Certificates or broad management decisions—have been far above normal. Here again, practices between companies were not consistent. Ideally, depreciation charges in excess of normal should be added back to income in the year or years in which made and deducted from income in subsequent years when charges are below normal. While the amount of accelerated depreciation was frequently stated, information was very rarely provided as to the amount by which depreciation was below normal. Accordingly, if income was increased in years of accelerated depreciation, it was not possible from available data to make compensatory adjustments in subsequent periods. Consequently, the analyst faced this dilemma: if, on the one hand, no adjustments were made to income for accelerated depreciation, income would be understated in the short run but—because this understatement would be offset by a corresponding overstatement in later years—the average earnings for the entire period would be correct; if, on the other hand, adjustments were made, earnings would be more representative in the short run but would be definitely overstated in the long run.

Two points have governed our decision to accept accelerated depreciation charges as reported. First, to eliminate in one year an expense which eventually should be definitely charged to income without being able to make that charge in a later year accomplishes nothing in the long run and is not in accord with the all-inclusive approach. Second, over time income differences diminish. For example, if a company secured Necessity Certificates in the 1940's and again in the 1950's, the amount of the present accelerated depreciation might be more than offset by the fact that the World War II facilities are now entirely written off. To assist in judging the impact of depreciation on earnings figures, attention is called in the discussion of the industry to the depreciation policies followed whenever appropriate.

Inventory Valuation

In recent years, many companies have adopted the LIFO (last in, first out) basis for charging out inventory. This may have a substantial effect upon earnings in the short run. Accordingly, when significant, changes in the inventory valuation method are referred to in the industry discussion. In a few instances, companies had recomputed their earnings on the new basis for a limited number of past years. Whenever available, these adjusted earnings figures were employed.

Income was always adjusted if a charge (or credit) was made to surplus because of a change in the inventory valuation method. Otherwise, earnings were accepted as reported.

An entirely different type of inventory valuation problem arises when charges are made to income for anticipated inventory declines. These charges are reversed in the current year because they presently constitute anticipated rather than actual inventory losses. If a reserve was thereby established, it was treated as a surplus reserve and added to both total and common stock capital. Increases in the reserve were added back to income and reductions were charged to income.

Transfers from Liability and Valuation Reserves to Surplus

The transfer of all or part of a liability reserve or valuation reserve either directly to surplus or to a surplus reserve is evidence that charges to income in prior years were too high and earnings were understated. Where possible income of the years in which the overcharges were made was credited. Otherwise, to obtain a more accurate average for the period under review, the entire amount of the transfer was credited to income of the year in which the transfer occurred.

Write-offs of Intangible Assets

Where intangible assets were being systematically amortized by charges to income, the charges were allowed to stand. If, instead, such items were being written off to surplus no adjustments to income have been made.

Losses and Gains on Stock and Bond Transactions

Losses or gains on transactions in a company's own stock were not considered as income items, whereas those arising from redemption or exchange of company bonds have been credited or charged to income.

Losses and Gains on the Sale of Fixed Assets

The sale of fixed assets in every case may not be of a repetitive nature and thus, from this standpoint, may not be strictly incidental to the operation of a continuing business. Nevertheless, it is extremely difficult to draw a clear-cut dividing line between the incidental and the non-incidental. In view of this fact and because losses or gains on the sale of fixed assets accrue either to the disadvantage or advantage of the stockholder, all such losses or gains were run through the income statement. The only exception to this rule was when a company disposed of a major segment of the enterprise.

Provision for Loss on Investments

This provision is frequently created by a charge to surplus. Actually it is a valuation reserve and should be a charge to income.

Prior Years' Income Taxes

Refunds or charges for prior years' taxes were reallocated, if possible, to the prior years and, if not, were credited or charged to income in the current year.

Appendix B

THE STEEL INDUSTRY

BETHLEHEM STEEL CORPORATION

YEAR	[redacted] CAPITAL					SALES	COMMON STOCK CAPITAL						
	AVERAGE millions	EARNINGS AVAILABLE millions	EARNINGS RATE per cent	EARNINGS [redacted] per cent	[redacted] TOTAL CAPITAL per cent	ANNUAL millions	AVERAGE BOOK VALUE millions	[redacted] TO [redacted] per cent	EARNINGS RATE per cent	EARNINGS TO [redacted] per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent
1935	608.7	10.8	1.8	5.5	32	197.2	383.4	64	d .7				30
1936	615.0	20.7	3.4	7.1	48	293.2	373.4	61	2.4	4.5	53.9	2.4	53
1937	644.0	37.1	5.8	8.8	66	423.7	369.7	57	6.2	9.9	68.8	6.8	63
1938	657.2	12.5	1.9	4.6	41	271.2	372.8	57	d .5				50
1939	661.6	32.8	5.0	7.9	63	414.1	369.7	56	4.9	8.2	26.2	2.1	61
1940	671.8	50.7	7.5	8.4	90	602.2	381.2	57	10.2	16.7	38.4	6.4	61
1941	683.4	50.5	7.4	5.3	141	961.2	406.2	59	9.8	19.0	44.8	8.5	52
1942	687.6	41.5	6.0	2.8	218	1495.7	422.2	61	9.9	24.6	42.8	10.5	40
1943	695.9	54.3	7.8	2.9	273	1902.8	443.2	64	10.1	24.5	39.9	9.7	41
1944	722.6	51.4	7.1	2.9	242	1746.7	469.6	65	8.9	22.7	42.9	9.7	39
1945	723.1	37.5	5.2	2.8	183	1326.6	487.9	67	5.9	11.6	62.6	7.3	50
1946	715.2	32.3	4.5	4.1	110	787.7	498.4	70	4.9	8.2	74.0	6.1	59
1947	732.8	53.5	7.3	5.2	141	1032.3	514.6	70	8.7	16.3	40.1	6.6	53
1948	770.6	99.7	12.9	7.6	170	1312.6	554.4	72	16.3	28.8	23.8	6.9	57
1949	864.4	102.6	11.9	8.1	147	1266.8	625.2	72	14.8	34.0	24.8	8.4	44
1950	969.4	125.9	13.0	8.7	149	1439.8	708.2	73	16.5	30.4	33.7	10.3	54
1951	1059.5	109.6	10.3	6.1	169	1793.1	777.9	73	12.9	19.7	38.3	7.5	65
1952	1179.8	94.6	8.0	5.6	143	1691.7	832.0	71	10.1	17.3	45.4	7.8	[redacted]
1953	1219.6	138.8	11.4	6.7	171	2082.0	899.6	74	14.2	26.1	30.1	7.8	54
1954	1238.6	136.0	11.0	8.2	134	1656.8	991.6	80	12.3	16.4	43.6	7.1	78
1955	1431.4	184.3	12.9	8.8	146	2096.6	1093.4	76	15.9	13.4	40.0	5.3	119
Averages													
1935–1939			3.6	7.1	50			59	2.4	4.8	55.8	2.7	51
1947–1955			11.0	7.3	152			74	13.7	19.9	35.7	7.1	[redacted]
1947–1950			11.4	7.6	151			72	14.3	27.7	29.6	8.2	52
1951–1955			10.8	7.1	152			75	13.3	17.2	39.1	6.7	77

Adjustments to reported income

Surplus items

1935	dr.	[redacted] 434,856
	dr.	73,755
1936	cr.	1,750,000
1937	cr.	1,055,000
	cr.	214,000
	dr.	1,695,986
1938	cr.	2,200,000
	dr.	950,000
	dr.	418,242
1939	cr.	600,000
	cr.	728,200
	cr.	1,328,200

1940	cr.	$1,310,000
	dr.	2,400,000
	dr.	6,178,650
	dr.	3,928,534
1941	cr.	639,722
1943	cr.	5,272,100
	cr.	537,299
1944	cr.	537,299
1945	cr.	537,299
1948	cr.	8,375,447
	cr.	1,579,553
	dr.	3,600,000

Reserve items

Reported income adjusted for changes, after eliminating transfers to and from surplus in the following reserves:

Contingent
Insurance
Inventory Valuation

Adjustments to reported capital

Total capital and common-stock capital include the following reserves:

Contingent
Insurance
Inventory Valuation
Special Incentive Fund

Earnings available total capital

(Net income after taxes plus interest on non-current debt)

1940	$52.7 mil.	1948	$101.6 mil.
1941	52.1	1949	104.6
1942	43.6	1950	128.0
1943	56.3	1951	112.7
1944	53.5	1952	98.7
1945	39.1	1953	144.2
1946	33.3	1954	139.5
1947	55.0	1955	188.6

INLAND STEEL COMPANY

	TOTAL CAPITAL					SALES	[redacted] STOCK CAPITAL						
[redacted]	AVERAGE millions	[redacted] AVAILABLE millions	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	ANNUAL millions	AVERAGE BOOK VALUE millions	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS [redacted] per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	MARKET TO BOOK per cent
1935	101.6	11.1	10.9	17.8	62	62.5	63.9	63	14.2	8.3	31.9	2.6	172
1936	118.2	14.2	12.0	14.4	84	98.9	78.3	66	15.8	7.8	54.0	4.2	204
1937	137.3	14.2	10.3	12.8	81	110.7	88.8	65	13.9	5.0	62.6	3.1	276
1938	147.6	7.3	4.9	9.9	50	74.1	95.3	65	5.7	4.5	72.2	3.2	127
1939	150.9	12.6	8.3	10.9	76	115.3	99.6	66	10.8	8.1	60.2	4.9	135
1940	154.8	13.8	8.9	9.7	92	142.2	105.4	68	11.9	9.7	64.8	6.3	123
1941	158.8	16.3	10.3	8.0	128	202.8	111.4	70	13.7	12.2	53.6	6.6	112
1942	160.4	14.1	8.8	7.4	118	189.6	118.3	74	11.2	12.6	54.9	6.9	89
1943	159.6	11.7	7.3	5.7	128	203.7	123.8	78	8.9	9.6	66.4	6.3	93
1944	161.2	11.1	6.9	5.0	137	221.2	127.8	79	8.2	8.1	69.5	5.6	102
1945	162.2	10.0	6.2	4.6	134	217.4	130.5	80	7.2	6.2	77.7	4.8	116
1946	178.6	16.0	9.0	7.3	122	217.7	134.6	75	11.4	8.1	58.4	4.7	142
1947	202.8	31.5	15.5	10.0	155	315.0	147.2	73	21.1	16.9	39.4	6.6	125
1948	232.8	43.9	18.9	11.2	169	392.7	169.2	73	25.4	21.4	34.2	7.3	119
1949	259.5	27.0	10.4	7.8	133	345.9	187.2	72	13.9	14.7	56.5	8.3	94
1950	275.0	41.9	15.2	9.1	167	459.3	204.8	74	19.9	17.5	42.0	7.3	114
1951	292.6	33.6	11.5	6.5	177	518.7	224.3	77	14.6	12.4	52.3	6.5	118
1952	327.2	24.3	7.4	5.3	140	458.0	236.0	72	9.9	10.3	62.8	6.5	97
1953	360.4	33.3	9.2	5.8	160	575.6	247.3	69	12.8	15.3	54.4	8.3	83
1954	378.1	44.1	11.7	8.3	141	533.1	274.1	72	15.5	13.8	44.5	6.1	112
1955	406.4	53.6	13.2	8.1	162	659.7	315.8	78	16.6	12.0	44.0	5.3	[redacted]
Averages													
1935–1939			9.1	12.9	70			65	11.7	6.5	55.4	3.6	181
1947–1955			12.2	7.8	156			73	16.1	14.5	46.3	6.7	111
1947–1950			14.9	9.5	156			73	19.9	17.7	41.7	7.4	112
1951–1955			10.7	6.9	156			74	14.1	12.7	49.8	6.3	111

Adjustments to reported income

Surplus items

1935	dr.	$ 193,685
	dr.	1,111,651
1936	cr.	87,621
	cr.	520,022
	dr.	152,984
	dr.	208,058
1940	dr.	2,226,215
1941	cr.	147,271
1942	cr.	60,396
1943	cr.	90,521
1944	cr.	102,199

Reserve items

Reported income adjusted for changes, after eliminating transfers to and from surplus in the following [redacted]

Contingencies
Relining Furnaces

Adjustments to reported capital

Total capital and common-stock capital include the following reserves:

Accident Compensation
Contingencies
Relining Furnaces

Earnings available total capital

(Net income after taxes plus interest on non-current debt)

1940	$14.4 mil.	1948	$44.4 mil.
1941	16.7	1949	27.6
1942	14.6	1950	42.7
1943	12.1	1951	34.6
1944	11.5	1952	25.3
1945	10.4	1953	35.1
1946	16.5	1954	45.8
1947	31.8	1955	55.0

JONES & LAUGHLIN STEEL CORPORATION

YEAR	TOTAL CAPITAL					SALES	COMMON STOCK CAPITAL						
	AVERAGE millions	EARNINGS AVAILABLE millions	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	ANNUAL millions	AVERAGE BOOK VALUE millions	COMMON TO TOTAL CAPITAL per cent	EARNINGS RATE per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	[redacted]ARKET TO BOOK per cent
1935	180.9	.3	.2	.5	35	63.6	105.1	58	d 3.9				15
1936	194.4	4.1	2.1	4.3	49	94.4	101.4	52	d 1.1				37
1937	208.0	5.0	2.4	4.3	56	117.5	100.0	48	d .5				[redacted]
1938	212.8	3.8	1.8	5.0	35	75.5	95.0	45	d 10.1				20
1939	218.7	5.2	2.4	4.6	52	113.6	90.0	41	[redacted] 1.1				21
1940	222.7	13.0	5.8	8.5	69	153.1	94.5	42	8.3	47.3			17
1941	229.0	15.8	6.9	7.3	94	216.0	118.2	52	10.2	35.7	14.0	5.0	29
1942	246.3	13.2	5.4	5.6	95	235.0	145.8	59	6.5	28.1	36.8	10.4	23
1943	261.8	13.2	5.0	4.7	107	280.7	157.1	60	5.9	25.3	34.4	8.7	23
1944	267.6	10.5	3.9	3.6	108	290.1	161.6	60	4.3	18.0	45.7	8.2	24
1945	250.8	5.7	2.3	2.0	114	284.7	169.6	68	1.4	3.1	143.5	4.5	43
1946	249.8	7.5	3.0	3.0	99	246.3	184.3	74	2.9	5.0	88.7	4.4	57
1947	275.2	19.9	7.2	5.7	127	350.1	201.7	73	8.8	21.5	28.2	6.1	41
1948	311.4	33.0	10.6	7.4	143	446.1	222.0	71	13.7	35.5	17.4	6.2	[redacted]
1949	329.1	21.5	6.5	5.6	117	386.0	239.5	73	7.9	26.8	34.9	9.4	29
1950	356.7	42.3	11.9	8.7	137	487.5	311.2	87	12.8	39.3	17.8	7.0	33
1951	420.0	32.3	7.7	5.7	134	564.3	347.3	83	8.5	18.0	36.3	6.5	47
1952	480.8	21.4	4.5	4.3	103	495.4	321.6	67	5.6	12.6	62.2	7.9	[redacted]
1953	495.8	33.5	6.8	5.4	126	624.4	334.2	67	8.8	22.1	41.0	9.1	40
1954	498.9	26.7	5.4	5.4	[redacted]	492.9	352.6	71	6.7	13.3	52.8	7.0	50
1955	526.1	51.7	9.8	7.4	132	696.5	387.1	74	12.6	18.0	28.8	5.2	70
Averages													
1935–1939			1.1	2.3	46			48	[redacted] 3.3				27
1947–1955			7.6	6.2	123			74	9.4	20.9	33.0	6.9	45
1947–1950			9.2	7.0	131			77	11.0	31.4	22.5	7.1	35
1951–1955			6.8	5.8	119			72	8.6	16.8	40.5	6.8	51

Adjustments to reported income

Surplus items

1935	cr.	$ 439,600
1936	cr.	51,515
	cr.	130,000
	dr.	1,050,000
	dr.	262,400
1937	dr.	206,515
	dr.	277,876
	dr.	319,429
1938	cr.	90,625
	dr.	100,795
1939	dr.	200,000
[redacted]	dr.	$ 81,375
	cr.	349,005
	cr.	137,286
	cr.	49,500
	dr.	142,344
1941	dr.	76,625
	dr.	1,208,940
	dr.	1,628,612
1945	cr.	405,138
1947	cr.	1,603,327
	dr.	1,928,964
	dr.	1,229,443
1948	cr.	1,670,624
1950	dr.	1,605,000

Reserve items

Reported income adjusted for changes, after eliminating transfers to and from surplus, in the following reserves:

Blast Furnace Relining
Coke Oven Rebuilding
Contingencies
Other Maintenance Reserves

Adjustments to reported capital

Total capital and common-stock capital include the following [redacted]

Blast Furnace Relining
Coke Oven Rebuilding
Compensation and Pensions
Contingencies
Fire Insurance
Other Maintenance Reserves

Earnings available total capital

(Net income after taxes plus interest on non-current debt)

1940	$13.5 mil.	1948	$33.6 mil.
1941	16.2	1949	22.1
1942	13.8	1950	43.0
1943	13.8	1951	33.6
1944	11.0	1952	23.4
1945	6.1	1953	36.1
1946	7.8	1954	28.6
1947	20.3	1955	53.5

NATIONAL STEEL CORPORATION

YEAR	TOTAL CAPITAL					SALES	[redacted] STOCK CAPITAL						
	AVERAGE millions	[redacted] millions	[redacted] per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	[redacted] millions	AVERAGE BOOK VALUE millions	COMMON TO TOTAL CAPITAL per cent	EARNINGS [redacted] per cent	EARNINGS [redacted] per cent	[redacted] per cent	DIVIDEND YIELD per cent	[redacted] per cent
1935	155.2	11.6	7.5	11.2	66	103.2	111.2	72	8.4	6.9	34.4	2.4	120
1936	166.1	12.3	7.4	10.0	74	123.1	112.7	68	8.9	6.8	67.0	4.6	130
1937	174.8	20.7	11.8	14.2	83	145.9	117.2	67	15.6	10.9	41.5	4.5	143
1938	185.1	10.1	5.5	11.3	48	89.5	125.7	68	6.1	5.6	93.5	5.2	110
1939	193.9	11.6	6.0	8.8	68	132.1	131.3	68	7.0	6.2	40.2	2.5	113
1940	201.2	14.8	7.4	9.4	78	157.9	138.0	69	9.8	10.1	40.7	4.1	97
1941	208.9	19.1	9.1	9.5	96	200.6	147.2	70	12.2	14.8	39.7	5.9	82
1942	216.6	17.3	8.0	7.9	102	219.9	157.2	73	10.3	15.2	40.7	6.2	68
1943	223.2	15.1	6.8	5.9	115	256.2	166.2	74	8.4	10.9	47.1	5.1	77
1944	228.8	14.2	6.2	5.6	110	252.4	173.4	76	7.6	9.4	50.0	4.7	81
1945	226.3	11.7	5.2	4.3	120	271.8	179.0	79	6.0	6.5	61.1	4.0	93
1946	229.6	23.7	10.3	9.9	104	239.8	189.6	83	12.1	11.6	31.4	3.7	104
1947	247.2	28.3	11.4	8.6	133	329.0	207.2	84	13.3	14.5	32.4	4.7	91
1948	271.6	42.1	15.5	9.6	161	436.5	231.6	85	17.8	17.2	27.1	4.7	104
1949	302.5	46.2	15.3	10.9	140	424.9	262.5	87	17.3	21.9	29.7	6.5	79
1950	338.2	62.3	18.4	11.6	159	537.0	298.2	88	20.6	18.9	34.0	6.4	109
1951	371.6	49.3	13.3	8.0	166	618.5	331.6	89	14.7	13.4	45.2	6.0	110
1952	402.0	42.9	10.7	7.8	136	548.6	354.4	88	11.9	11.9	52.3	6.2	100
1953	432.2	52.3	12.1	8.2	147	634.2	377.2	87	13.6	15.2	46.5	7.1	89
1954	450.4	32.5	7.2	6.7	107	484.1	395.4	88	8.0	7.7	69.6	5.4	104
1955	468.7	50.8	10.8	8.2	133	622.0	413.7	88	12.1	9.9	47.9	4.8	121
Averages													
1935–1939			7.6	11.2	68			68	9.1	7.4	52.1	3.9	123
1947–1955			12.4	8.8	141			87	13.9	13.6	42.1	5.7	102
1947–1950			15.4	10.4	149			86	17.6	18.2	31.0	5.7	96
1951–1955			10.7	7.8	137			88	11.9	11.4	50.9	5.8	105

Adjustments to reported income

Surplus items

1935	dr.	[redacted] 583,350
	cr.	106,286
	dr.	1,873,749
1936	dr.	936,823
	dr.	675,000
	dr.	1,802,554
1939	dr.	3,887,992
1945	dr.	1,994,593

Reserve items

Reported income adjusted for changes, after eliminating transfers to and from surplus, in the following reserves:

Contingency and Post-War Adjustments
General Operating and Contingencies
Relining, Rebuilding and Repairs
Special Reserve for Federal Income Taxes

Adjustments to reported capital

Total capital and common-stock capital include the following reserves:

Contingency and Post-War Adjustments
General Operating and Contingencies
Relining, Rebuilding and Repairs
Special Reserve for Federal Income Taxes

Earnings available total capital

(Net income after taxes plus interest [redacted] non-current debt)

1940	$15.4 mil	1948	$42.6 mil
1941	19.7	1949	46.7
1942	18.0	1950	62.8
1943	15.8	1951	50.0
1944	14.9	1952	43.8
1945	12.3	1953	53.2
1946	24.2	1954	33.4
1947	28.8	1955	51.7

REPUBLIC STEEL CORPORATION

YEAR	TOTAL [redacted]					SALES	COMMON STOCK CAPITAL						
	AVERAGE millions	EARNINGS AVAILABLE millions	EARNINGS RATE per cent	EARNINGS TO SALES per cent	SALES TO TOTAL CAPITAL per cent	ANNUAL millions	AVERAGE BOOK VALUE millions	COMMON TO TOTAL CAPITAL per cent	EARNINGS [redacted] per cent	EARNINGS TO PRICE per cent	PAY-OUT RATE per cent	DIVIDEND YIELD per cent	[redacted] per cent
1935	266.0	14.2	5.3	10.4	51	136.2	139.2	52	d 15.7				44
1936	300.0	16.1	5.4	7.4	73	218.3	159.0	53	5.4	8.9			61
1937	326.6	13.5	4.1	5.4	77	250.4	184.6	57	3.3	3.7			89
1938	332.5	.9	.3	.6	42	140.9	201.4	61	d 3.9				50
1939	331.8	16.4	4.9	7.1	69	230.3	203.0	61	4.7	8.2			57
1940	347.8	26.2	7.5	8.6	87	303.3	218.6	63	9.1	18.5	11.6	2.1	49
1941	362.9	28.7	7.9	6.0	132	480.5	233.8	64	12.6	28.1	38.3	10.8	45
1942	364.6	24.7	6.8	4.8	142	517.9	246.3	68	8.2	22.3	35.1	7.8	37
1943	356.0	2.6	.7	.5	154	549.1	249.6	70	d .6			5.9	39
1944	350.1	11.4	3.3	2.2	151	527.9	247.3	71	2.7	6.3	86.4	5.4	42
1945	348.8	9.6	2.8	1.9	143	497.7	250.4	72	2.5	4.1	91.9	3.8	60
1946	346.6	13.7	4.0	3.3	119	412.8	255.4	74	4.3	5.8	52.3	3.0	73
1947	364.0	32.5	8.9	5.0	177	645.3	267.1	73	11.0	19.2	38.4	7.4	57
1948	394.7	50.5	12.8	6.6	194	766.4	293.2	74	16.2	28.8	27.0	7.8	56
1949	417.4	50.2	12.0	7.7	156	652.0	324.8	78	14.6	36.5	37.4	13.7	40
1950	440.0	65.9	15.0	7.5	200	881.8	358.4	81	17.6	30.2	39.7	12.0	58
1951	514.8	56.0	10.9	5.3	204	1052.7	392.2	76	13.5	20.9	44.6	9.3	65
1952	597.8	45.6	7.6	5.0	154	918.4	416.1	70	10.0	16.6	56.6	9.4	60
1953	624.8	58.7	9.4	5.2	182	1137.1	438.4	70	12.5	19.7	48.9	9.6	63
1954	634.2	55.5	8.8	6.6	133	846.3	499.0	79	10.5	10.8	55.0	5.9	98
1955	646.9	81.3	12.6	6.8	184	1188.6	579.2	90	13.9	11.3	47.8	5.4	123
Averages													
1935–1939			2.0	3.2	63			57	d .6				61
1947–1955			10.7	6.1	175			77	13.2	17.8	44.3	7.9	74
1947–1950			12.3	6.8	182			77	15.1	28.5	35.7	10.2	53
1951–1955			9.8	5.8	170			77	12.1	14.3	50.1	7.1	[redacted]

Adjustments to reported income

Surplus items

1935	dr.	$20,000,000
	cr.	72,078
	dr.	256,760
1936	cr.	200,000
	dr.	1,085,770
1937	dr.	2,355,495
	dr.	91,062
1938	cr.	150,000
1939	cr.	87,278
1946	cr.	55,304
1947	cr.	97,634
1948	cr.	3,060,685

Reserve items

Reported income adjusted for changes, after eliminating transfers to and from surplus in the following reserves:
Special Reserve for Coordination of Plant Facilities
Rebuilding, Renewals, Contingent and Other Operating Reserves

Adjustments to reported capital

Total capital and common-stock capital include the following [redacted]
Insurance – Fire and Accident
Rebuilding, Renewals, Contingent and Other Operating Reserves
Special Reserve for Coordination of Plant Facilities

Earnings available total capital

(Net income after taxes plus interest on non-current debt)

1940	$27.5 mil.	1948	$51.3 mil.
1941	30.1	1949	50.9
1942	26.3	1950	66.6
1943	4.0	1951	57.4
1944	13.3	1952	47.9
1945	10.6	1953	61.4
1946	14.4	1954	57.8
1947	33.4	1955	82.3

UNITED STATES STEEL CORPORATION

[redacted]	TOTAL CAPITAL AVERAGE millions	TOTAL CAPITAL EARNINGS AVAILABLE millions	TOTAL CAPITAL EARNINGS RATE per cent	TOTAL CAPITAL EA[redacted] TO SALES per cent	TOTAL CAPITAL [redacted] TOTAL CAPITAL per cent	SALES ANNUAL millions	[redacted] STOCK CAPITAL AVERAGE BOOK VALUE millions	[redacted] STOCK CAPITAL COMMON TO TOTAL CAPITAL per cent	[redacted] STOCK CAPITAL EARNINGS RATE per cent	[redacted] STOCK CAPITAL EARNINGS TO PRICE per cent	[redacted] STOCK CAPITAL PAY-OUT RATE per cent	[redacted] STOCK CAPITAL [redacted] per cent	[redacted] STOCK CAPITAL [redacted] TO BOOK per cent
1935	1754.5	10.0	.6	1.7	33	580.4	1228.8	70	d .3				28
1936	1756.2	59.0	3.4	7.0	48	840.3	1234.0	70	1.0	2.4			44
1937	1781.7	105.3	5.9	9.7	61	1086.8	1283.0	72	3.2	5.5	20.9	1.1	59
1938	1841.0	2.1	.1	.3	34	632.5	1298.6	71	[redacted] 2.4				37
1939	1881.0	50.2	2.7	5.6	48	904.2	1290.6	69	1.2	2.9			42
1940	1893.6	112.5	5.9	10.5	57	1076.5	1324.1	70	5.9	15.3	44.7	6.8	38
1941	1945.0	152.2	7.8	9.4	[redacted]	1617.4	1393.0	72	[redacted]	23.5	28.3	6.7	37
1942	1979.2	100.4	5.1	5.4	94	1863.0	1453.8	73	5.0	16.2	48.3	7.8	31
1943	1984.9	91.2	4.6	4.6	99	1972.3	1486.4	75	4.2	13.3	55.9	7.4	32
1944	1992.9	87.2	4.4	4.2	104	2082.2	1518.4	76	3.9	11.9	59.0	7.0	33
1945	1956.2	20.2	1.0	1.2	89	1747.3	1508.6	77	d .5			5.4	42
1946	1928.2	61.8	3.2	4.1	78	1496.1	1488.0	77	2.3	4.8	103.6	4.9	47
1947	1952.8	125.1	6.4	5.9	109	2122.8	1513.4	77	6.5	15.7	46.5	7.3	41
1948	1991.2	127.0	6.4	5.1	125	2481.5	1556.6	78	6.4	15.1	52.0	7.8	43
1949	2043.0	159.3	7.8	6.9	113	2301.7	1614.0	79	8.2	21.6	42.3	9.1	38
1950	2117.0	214.0	10.1	7.2	140	2956.4	1692.8	80	11.1	20.8	49.4	10.3	53
1951	2197.0	182.8	8.3	5.2	160	3524.1	1778.4	81	8.8	13.9	50.0	7.0	63
1952	2258.5	139.7	6.2	4.5	139	3137.4	1840.2	81	6.2	10.9	68.9	7.5	57
1953	2337.2	216.0	9.2	5.6	165	3861.0	1914.1	82	9.9	18.6	41.3	7.7	53
1954	2569.1	199.7	7.8	6.1	127	3250.4	2014.5	78	8.5	11.4	49.7	5.7	75
1955	2846.5	376.3	13.2	9.2	144	4097.7	2181.1	77	15.9	13.5	35.4	4.8	118
Averages													
1935–1939			2.5	5.6	45			70	.6	1.3	24.8	.3	42
1947–1955			8.6	6.3	137			79	9.3	14.9	46.1	6.9	62
1947–1950			7.7	6.3	122			79	8.1	18.5	47.6	8.8	44
1951–1955			9.1	6.2	146			80	10.1	13.5	45.3	6.1	75

Adjustments to reported income

Surplus items

1940 cr. $415,183

Reserve items

Reported income adjusted for changes, after eliminating transfers to and from surplus, in the following [redacted]

Estimated additional Costs arising out of War
Extraordinary Operating Expenses
General Contingent
Other

Adjustments to reported capital

Total capital and common-stock capital include the following reserves:

Accident and Hospital
Estimated Additional Costs arising out of War
Extraordinary Operating Expenses
General Contingent
Insurance
Loss Replacement–ships
Replacement of Properties
Other

Earnings available total capital

(Net income after taxes plus interest [redacted] non-current debt)

1940	$116.6 mil.	1948	$127.9 mil.
1941	154.1	1949	160.2
1942	102.5	1950	214.9
1943	93.7	1951	183.8
1944	89.2	1952	140.7
1945	21.6	1953	217.1
1946	63.6	1954	202.4
1947	126.0	1955	381.0

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